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Characteristics of the Princes' Party's 3 Echelons

92CM0276A Hong Kong TANGTAL
[CONTEMPORARY] in Chinese
No 13, 15 Apr 92 pp 40-45

[Article by He Pin (0149 7340) and Gao Xin (7559 2450):
"Possibility of the Princes' Party Taking Over the Reins of
Power"]

[Text] The first echelon mostly grew up drinking the waters
of Yan He, and matured drinking the waters of the Volga.
The second echelon grew up under the Red Flag. The third
echelon evolved from the Red Guards from being "sons of
bitches" into the "third generation of the republic."

Writers' note: In putting together the book "The CPC's
princes' party," we interviewed dozens of people who were
highly knowledgeable about the conditions of senior CPC
cadres, including some of their relatives and former class-
mates and colleagues. We also interviewed some of the sons
and daughters of high-ranking CPC officials currently
devoting themselves to academic studies in the U.S.,
Canada, and elsewhere. The interviews concentrated on the
reality and possibility of the princes' party taking over the
reins of power. Opinions expressed in this article are those
of the writers but also sum up the views of the interviewees.

The Concept of the Princes' Party and Its Classification

Most of the interviewees agree with the writers' observation
that it has become customary in the past few years for
overseas media to refer to the princes' party, a collection of
young and middle-aged officials on the mainland whose
entry into officialdom was eased by the previous generation
who had fought to conquer China and to whom they are
related by blood or marriage. Now it seems unnecessary to
reexamine conceptually the scope and scientific nature of
this term. At a minimum this term points up the irony of the
CPC practice of feudal hereditary rule. However, some
people think that the children of senior CPC cadres who
have gradually been taking over the reins of power (includ-
ing the children of the older generation of revolutionaries
who have passed away) constitute a large and diverse group,
so the term "princes' party" should be reserved for the
group who actually has a succession "platform," even an
"organizational line." Representative of the latter group are
Chen Yuan [7115 0337] (now vice president of the People's
Bank of China), Chen Yun's son, and Deng Yingtao [6772
5391 3221] (a young economic theorist and deputy director
of the Rural Development Institute, Chinese Academy of
Social Science and Deng Liqun's [6772 0500 5028] son.
Following the failure of the coup in the Soviet Union last
year, they wasted no time in unveiling a lengthy paper
entitled "China's Realistic Response and Strategic Choices
In the Wake of Drastic Changes in the Soviet Union" and
presented it to the top levels of the CPC. The paper is
generally seen by overseas media as the princes party's "new
government platform" after it takes over.

In the writers' opinion, regardless of whether or not the
concept of the princes' party is scientific, that the children of
high-ranking cadres and revolutionary martyrs have been
taking over (or are poised to take over) the reins of power is

after all an objective phenomenon in the history of Chinese
Communist rule. As to how we can actually classify these
people by their platforms, political achievements, experi-
ence, or organizational line is a separate matter. The group
of communists who fought to capture the country, for
example, may be divided into several groups depending on
their seniority (that is, the order in which they joined the
revolution), or according to the CPC's history of the two-
line struggle. So let me try defining the princes' party both
narrowly and broadly. The narrow definition is given above;
the broad definition is as follows: The group of people who
are related by blood or marriage to the CPC's founding
fathers and who now hold high-ranking positions in the
party, government, or military on the mainland. These
people are divided into three echelons in the book according
to their seniority.

Does the First Echelon Rule the Country?

The combination of the longstanding Chinese notion of
continuing the family name and the CPC's tradition as a
secret society of sharing the "fruits of victory" among all
members determined that the "older generation of prolet-
arian revolutionaries" took pains to train their children
and those of revolutionary martyrs ever since they began
fighting to seize state power. The goal of conquering the
country was not only to improve one's own circumstances
and further one's immediate interests, but also to benefit
one's children and grandchildren, a long-term objective.
This is the meaning of "ensuring that the enterprise founded
by the older generation of proletarian revolutionaries would
not change color in a thousand years." In the final analysis,
this also was why Mao Zedong said we must "talk about
class struggle every year, every month, every day."

After establishing its base in Yan'an in the 1930's, therefore,
the CPC successively founded the Yan'an Nursery
Academy, a high school affiliated with Resisting the Japa-
nese Military and Political University, and the Yan'an
Academy of Natural Sciences continuing school. Of the
children of senior CPC cadres and revolutionary martyrs
who attended these schools at a young age and then followed
their fathers as they fought north and south on many fronts,
a few subsequently joined the revolution directly. Most,
however, were sent to the Soviet Union to study. Upon their
return to China, they were given jobs in major departments
in the CPC to be trained for "grassroots work." It is these
people that made up the "first echelon of the princes' party,"
represented by dozens of individuals including Buhe [1580
6378], (now chairman of the Inner Mongolia Autonomous
Regional Government,) Ulanfu's eldest son, Ye Xuanping
[5509 6693 1627], (vice chairman of the CPPCC), Ye
Jianying's oldest son, Jiang Zemin (general secretary of the
CPC Central Committee, the party's leadership core), the
adopted son of Jiang Shangqing [3068 0006 7230], a martyr
in the New Fourth Army; Li Peng [2621 7720], (premier),
the adopted son of Zhou Enlai and Deng Yingchao [6772
7336 6389] (and only son of Li Shuoxun [2621 4311 8113],
a revolutionary martyr); Zou Jiahua [6760 1367 5478], (vice
premier), the oldest son of Zou Taofen [6760 7290 1164], a
martyr; and Li Tieying [2621 6993 2503] (state councillor),

Li Wei-han's [2621 4850 3352] son. The "third-generation leadership core," as Deng Xiaoping puts it, is effectively the nucleus of the princes' party.

The Chinese Communist regime calls these people the "horseback cradle" generation, meaning they grew up in the military and experienced and survived the "revolutionary war." Based on the criteria by which Deng Xiaoping selected and promoted cadres—that they be revolutionary, knowledgeable, professional, and youthful, these people are the best qualified (youthful, that is, relative to their fathers' generation.)

Most people in this group grew up drinking the waters of Yan He and were educated and acquired skills drinking the waters of the Volga. As a result, they have been more deeply influenced by Mao Zedong Thought and Stalinism than anything else. They are more enlightened than their fathers, but not by much. In the near future, when the old guard has all passed away, this group of people will no doubt be the representative of conservative forces within the CPC, assuming the communist regime is still around. They are more convinced of the "legitimacy" of their succession than members of the princes' party in the second and third echelons and are therefore more militant about defending the "red regime." As far as the future of China as a whole is concerned, these people, we should say, are the biggest impediment to peaceful evolution.

However, since most elder statesmen in the Chinese Communist regime refuse to relinquish real power before they die and also because of the delay caused by the decade-long Cultural Revolution, there is an age gap between these people and the previous generation. In other words, when the law of nature finally puts them in sole charge of the ship of state, when their word becomes the law of the land, they too will probably reach a point when they must hand over the reins of power to their younger siblings.

The Second Echelon Consists Mostly Of Military Men

The second echelon of the princes' party essentially refers to the generation who grew up under the Red Flag after the communists entered the cities. After the Chinese Communist regime was set up, the CPC spent considerable financial resources on the modernization of so-called national defense, thanks to Mao Zedong's habit of wantonly engaging in military aggression and his idea of preparing for danger in times of peace. There was also a painstaking effort to groom their children as successor to the national defense enterprise.

In 1952 Mao Zedong and Zhou Enlai personally sent a telegram to top brass Chen Geng [7115 6342] instructing him to set up a military engineering school in as short a time as possible to accelerate the training of "our own modern military commanders." Armed with the imperial edict from the His Majesty and His Royal Highness, Chen ordered the departments involved in the military as well as localities across the nation to go full steam ahead. Less than 1 year later, the CPC had its own Huangpu Military Academy in Harbin. According to a report by Minister of Defense Peng Dehuai at the time, the school had developed into the largest military academy in the Far East by 1958. Reportedly the top levels of the CPC, including Mao Zedong, Zhou Enlai, Liu

Shaoqi, and Zhu De had dreams of expanding the academy into the largest such institution in the world. However, with the government increasingly strapped for funds after the Great Leap Forward, their dream was never realized.

After entering the cities, the CPC founded the August 1 School in Beijing for the children of its senior military officers. Meanwhile, Yucai School also moved to Beijing from its old base. At the time, only the children of military officers above the divisional level were allowed to enroll in the August 1 School, and only the children of cadres above the departmental and bureau levels in local party and government agencies were eligible to attend the Yucai School. The No 2 Experimental Elementary School under Beijing Normal University, which had the highest educational standard when the CPC entered Beijing, also was used by party and government bigwigs to prepare their "proletarian red successors."

After finishing primary school at the institutions mentioned above, most of the children of senior officials entered the No. 4 and No. 8 high schools for boys, the Beijing Normal University High School, and the Beijing Normal University for Girls, all of them among the best high schools in Beijing and even the entire nation, then and now.

The Second Echelon Has Fewest Setbacks

After graduating from high school, most of the children of senior cadres headed for the Harbin Military Academy and Qinghua University. Of those who enrolled in Qinghua University, over half majored in engineering physics, a field mainly involved in nuclear weapons teaching and research. Others joined the automatic control field and related specialties. In short, an overwhelming majority of the children of senior cadres who grew up in the period between the takeover of the cities by the CPC and the outbreak of the Cultural Revolution majored in specialties directly related to national defense or military technology, which explains why most of them joined the military or the national defense science and technology sector directly upon graduation. Today many of them are in effective control in the armed forces while a small number have left the army and returned to civilian life, taking up leadership positions in government and party organs at all levels. They make up the largest group in the princes' party, including He Pengfei [6320 7720 7378], He Long's [6320 7893] son; Chen Danhui [7115 0030 3232], Chen Yi's [7115 3015] son; Wu Shaoru [0124 4801 4371], Wu Yunfu's [0124 0061 3940] son; Lin Rongsan [2651 3938 0005], Lin Baiqu's [2651 0130 3255] son; Yu Zhengsheng [0205 2973 5116], Huang Jing [7806 2417] and Fan Jin's [5400 3866] son; Jiang Juping [5592 4376 1627], Jiang Nanxiang's [5592 0589 5046] son; Deng Pufang [6772 2613 2455], Deng Xiaoping's oldest son; Su Rongsheng [4725 2051 3932], Su Yu's oldest son [4725 5940], Qiao Zonghui [0829 1350 3232], Qiao Guanhua's [0829 0385 5478] son; Liao Hui [1675 2547], Liao Chengzhi's [1675 2110 1807] son; and Chen Yuan, Chen Yun's son.

Compared to the first and third echelons, the latter to be described below, the second echelon had the smoothest sailing. The former was forced to learn characters, sing songs, and get an education on horseback. The third echelon

could not go to school when they should have, instead their fate was tied up with rifles, hoes, and hammers for long years. During the Cultural Revolution, the academic stature of the second echelon fell short of "bourgeois reactionary academic authorities," while politically they were not quite "capitalist roaders in power." Therefore, they were not as harshly attacked as the first echelon. During the early days of the Cultural Revolution, they too were forced to integrate with the workers, peasants, and soldiers. In this aspect, they are similar to the third echelon. But since they had by then already graduated from college and become state cadres, they had a steady income even after they were sent to a May 7 cadre school or undertook grass-roots labor. Unlike members of the third echelon, the second echelon seldom really lived at the bottom rung of society, enduring all sorts of hardships just like the true laboring people.

After China began reform and opened the country to the outside world, they could not but be bombarded by the array of "Western bourgeois liberalization" ideas that swarmed mainland society in the wake of the development of the commodity economy, just like everybody else on the mainland. Nevertheless, because orthodox socialist education had already taken root in their heads before the entry of Western ideas, the old guard finds this generation quite trustworthy.

Another reason why members of the second echelon crave stability and dread disorder is that they have had fairly smooth sailing ever since their youth.

It is true that most of these people were rapidly promoted in the 1980's. On the other hand, to put someone around 50 years of age with at least a college education in charge of a department or bureau or make him a provincial military leader can hardly be considered excessive. Psychologically, therefore, these people can readily justify their meteoric rise in recent years by pointing to the 10-year gap caused by the Cultural Revolution. In reality, while He Pengfei was given a key position at the corps level after serving in the military for just 10 years and Liao Hui catapulted from a military officer at the regiment level (equivalent to the county level or section level in CPC state organs) to director of the Overseas Chinese Office (ministerial level) overnight, they are the exception rather than the rule. Many people got to be where they are today by climbing the official ladder step by step. Su Rongsheng, a son of Su Yu, for instance, joined the units at the forefront of the drive to resist America and aid Vietnam as soon as he graduated from the Harbin Military Engineering Academy. Starting out as a soldier, he worked his way up, successively serving as squad leader, platoon leader, deputy company leader, company leader, battalion commander, regimental commander, and division commander, before becoming deputy director of the military affairs department at the headquarters of the General Staff. Therefore, most of these people feel somewhat defensive about the legitimacy of their occupying high positions today.

From Red Guards to the "Third Generation of the Republic"

Among the offspring of senior CPC officials, those who happened to be in elementary and high school when the

Cultural Revolution broke out suffered the most. No sooner did they become red guards at the beginning of the Cultural Revolution than they were reduced to "sons of bitches," attacked by every one, the victims of their elders' bad luck. At one point their social status was even worse than that of children of "landlords, the rich, counter-revolutionaries, bad elements, and rightists," the targets of the communist revolution. With Deng Xiaoping effectively repudiating Mao Zedong, their misfortunes during the Cultural Revolution became their political capital and their pretext for living a life of luxury and dissipation, committing all manner of crimes, and their justification for engaging in official profiteering. Because of their disillusionment with society, life, and even the CPC, more people from this generation went down the road of degeneration than their counterparts from any other generation.

If we consider it ideal to be a member of the ruling circle, then it is in the generation that suffered the most during the Cultural Revolution that we find the most dandies, playboys, and individuals who have no such ideal or have gone astray. After China embarked on reform and opened itself to the outside world, many people saw only a superficial phenomenon—the "pragmatism" practiced by some members of this generation, but failed to analyze it as a sign of the beginning of the decline of the Chinese Communist regime from its peak.

Nevertheless, this generation also gave rise to a host of individuals dedicated to a political career, such as Liu Yuan [0491 3293], Liu Shaoqi's son; Xi Jinping [5045 6602 1627], Xi Zhongxun's [5045 0112 0534] son; Deng Yingtao, Deng Lihou's son; Bo Xiyong [5631 3556 357], Bo Xilai [5631 3556 0171], and Bo Xicheng [5631 3556 2052], Bo Yibo's [5631 0001 3134] sons.

A book came out on the mainland last year entitled *The Third Generation of the Republic*. Written by Yang Fan [2799 1581], an elementary school classmate of Bo Yicheng, the book refers to "the third generation of the republic" as people who were attending college, high school, or elementary school in 1966 when the Cultural Revolution broke out. In this generation, the author writes, the relationship between the children of cadres, the children of intellectuals, and the children of ordinary people has to a substantial extent become that between rising politicians, thinkers, and entrepreneurs. Translation: The children of cadres inevitably are politicians.

The author writes in the foreword, "I have published a memoir in the magazine ZHONGGUO QINGNIAN [CHINESE YOUTH] with another classmate. The subject was 'reaching the same goal by different routes,' a point raised by Bo Yicheng. It is also the origin of the book."

It is thus clear that this book was actually written following a suggestion by Bo Yicheng. Judging from its contents, it should be considered the princes' party's "new government platform." In effect, it frankly acknowledges the phenomenon of the princes' party taking over the reins of power and urges its readers to accept it.

The "third generation of the republic," that is, the same group of people we have identified as the "third echelon" of

the princes' party, have less legitimacy as successors than any of their older siblings. This explains their impatience to work their way into the top echelon of power in the waning years of the "older generation of proletarian revolutionaries," when the latter is still able to govern the country from behind the scenes, lest they should miss the last opportunity offered to them by history. On the other hand, they also feel the need to come up with "their own stuff" to boost their inherently weak claim to legitimacy.

The "New Government Platform of the Third Generation"

The "Third Generation of the Republic" sets forth a 12-point "new government platform," the most important points being "enhancing the sense of governance" and "improving the ability to rule." Under no circumstance can the third generation continue to emphasize "the differences between the proletarian ruling party and the ruling party of the exploiting class, while ignoring the general principles that a ruling party or a ruler must master, and dismissing them lock, stock, and barrel as the 'statecraft of the exploiting class,' principles that countless people have studied and brought to light in such areas as political science, management, sociology, decision-making science, demographics, economics, journalism, sociology, administrative science, and jurisprudence."

The author also writes, "The new leadership must work out a consensus. In particular, it must properly handle its relationship with intellectuals. The struggle between 'rule by the aristocracy' and 'rule by Confucianists' is endemic in Chinese history. Yet ultimately, social stability hinges on the successful application of an examination system based on competition in a level playing field to attract intellectuals into the ruling class, thereby broadening the class base and social base of the regime. Never assume that any regime can isolate itself from politicians, thinkers, and entrepreneurs, exclude intellectuals, and directly rely on the masses. On the contrary, only scientific rule can formulate policies that truly represent the people's interests."

Other than those mentioned above, there is one most essential distinction among the three echelons of the princes' party, namely that members of the third echelon have absorbed the most "Western bourgeois" stuff (other than science and technology). In other words, what these people want most is to establish on the mainland a political system similar to what existed in Taiwan in the 1950's and 1960's, namely, economic vitalization and political dictatorship, or, to put it more precisely, give intellectuals and ordinary people on the mainland as much freedom as they had before 1949.

It also must be admitted that at least some members of the third echelon such as Liu Yuan, Xi Jinping, Deng Yingtao, and Bo Yicheng did share weal and woe with those laboring people at the bottom rung of mainland society for a considerable period of time. It is through such experience that they learned the truth that giving the man in the street more practical benefits is essential to the long-term stability of the regime. Their sense of running the country is tinged with a touch of conscience, a desire to save the masses from the abyss of misery with their own benevolent rule.

The first echelon of the princes' party is superior to the previous generation; at least it would not return to the ludicrous extreme of stressing "taking class struggle as the key link." Still, for one thing they are not going to depart too much from the policies and lines of their fathers. As rulers, they are motivated more by a desire to preserve the regime than by the long-term interests of the nation and the well-being of the people. Secondly, as noted above, most of them can be nothing more than transitional figures in the CPC's inter-generation succession process because of their age.

The Third Echelon May Repudiate Socialism

Members of the third echelon are the most likely to totally reject socialism after their old men are completely laid to rest, thereby becoming the most enlightened leaders ever in the CPC regime, assuming that the regime continues to survive. The course of history will take either one of two routes with two different outcomes. In the first scenario, the Chinese Communist regime rapidly disintegrates after the Deng Xiaoping era draws to a close and mainland China is thrown into chaos for a lengthy period of time. In the second scenario, a group of people led by members of the princes' party take advantage of a desire for stability and fear of disorder on the part of the intellectuals and the masses and manage to continue one-party communist rule effectively for a while, effectively because they continue to make use of the existing autocracy machinery and, even more important, they follow the "new government platform" which will at long last allow the Chinese people to see a ray of hope and give them a little more benefits.

As for members of the second echelon, they may be eliminated over time because of age or ideology. Some will be eased out as a result of their conservative thinking. Others will merge with the third echelon. From this perspective, it is not altogether scientific for us to divide the princes' party into three echelons by age and experience. Chen Yuan, for instance, entered college in 1965 and is only 1 year older than the oldest member of the third echelon. Also, most of the people who are now gathered under his wing belong to the third echelon, "having reached the same goal by different routes."

As far as we know, almost all those individuals who discussed with Chen Yuan *China's Realistic Response and Strategic Choices in the Wake of Radical Changes in the Soviet Union* and took part in its drafting belong to the so-called "third generation of the republic."

Young Cadres Waste of Free Time Viewed

92CM0298B Beijing ZHONGGUO RENCAI [CHINA'S PERSONNEL] in Chinese No 4, April 92 pp 34-35

[Article by Xin Manping (6580 2581 1627): "Reasons Why Young Cadres Waste Their Free Time"]

[Text] As we all know, we are living in an age of an information explosion. No longer can schooling satisfy the urgent need of a person's all-around development or his demand for updating information. The proper utilization of one's free time besides the 8 hours at work has become an important contributing factor to the success of one's career. Acutely aware of this fact, many young government cadres

have been using their spare time sensibly to regulate their schedule of work, study, and living, and have made leisure time a continuation of schooling, thereby turning themselves into useful members of society. However, many other young government cadres have failed to use their free time properly, as demonstrated by several worrisome trends in the way people spend their spare time:

1. The mahjongg phenomenon. Some young cadres have become addicted to mahjongg and chess. They play mahjongg or chess all night long and never tire of it. A few have even gotten into the bad habit of gambling. These people turn up at work in a stupor, which seriously affects their work efficiency.

2. The good-spouse syndrome. Many government cadres are content to be a good spouse and revolve their lives around the family. All day long, they are preoccupied with mundane daily necessities, fashion, home furnishings, and electronic gadgets. They make their family the main theme of their lives while relegating work and study to mere "decorative notes."

3. They are more interested in whiling away their spare time and less interested in bettering themselves. In their over-emphasis on the leisurely aspect of their free time, they refuse to have anything to do with work or study in their spare time, instead entering a state of total relaxation. Judging from the pattern of cultural consumption by young cadres, we can see that many of them are particularly attracted to fiction, television, and films of a lowly character and limited artistic value and have not derived any spiritual nourishment that is morally uplifting from a so-called relaxed after-hours cultural life. Spiritual and cultural fare of a higher quality that will enhance their ideological and cultural accomplishments is completely ignored.

Free time accounts for two-thirds of the work, study, and other waking hours of a young employed person. Besides rest, entertainment, social intercourse, and time spent on household chores and staying in touch with friends and relatives, he should have ample time to improve his ideological and cultural condition provided that he uses his free time properly. How, then, can we account for the above-mentioned unhealthy ways in which young government cadres spend their free time? The reasons are as follows:

1. The incentive mechanism has weakened. For one thing, the problem of unequal social distribution has not been resolved; young government cadres shoulder an excessive burden. According to a study by the relevant department, young government cadres are paid less than similarly qualified personnel in other professions in society. After satisfying the most basic needs of daily life, a young cadre is hard pressed to come up with the money to pay for studies and a spiritual and cultural life. To him, the demands of a spiritual life are beyond what he can afford. The keep-up-with-the-Joneses mentality in distribution also has dampened his desire to improve himself and get ahead. Second, the cadre appointment system has yet to be perfected. The merit system has not

been effectively institutionalized or given statutory guarantees. Seniority and other unjustifiable phenomena in the selection of cadres have not been eliminated. This has robbed some young cadres of their confidence.

2. Ineffectual organizational guidance and leadership. The organization and management of the after-hours cultural life of young cadres in government organs is less effective than that of their counterparts in enterprises and institutions. Many units seldom organize activities that will help elevate the professional standards or improve the ideological and cultural caliber of their young cadres, such as lectures on political theory, cultural, scientific, and vocational knowledge, study groups, and sports events. In these units after-hours cultural life is monotonous and dull and lacks excitement.

3. The absence of a sense of professionalism. Some young cadres have only a hazy notion of the scientific management of office work. To them, office work is nothing more than transcribing and receiving and despatching. All they have to do is act in accordance with established procedures and follow the rules; there is nothing to it. They think they can handle their jobs with what limited knowledge they learned in school. Naturally they do not bother to study in their free time.

4. The media have been sending out the wrong message. Some newspapers, magazines, and mass media have been extolling and recommending, with seeming objectivity but without any analysis, the Western lifestyle and value system of "work hard, play hard," which has a low moral tone, thereby misleading some young cadres as to how to spend their free time.

Young government cadres, a majority of whom graduated from technical secondary schools or colleges, are an organic component of the party's corps of intellectuals and the actual implementors of administration and scientific management. Their ideological and cultural caliber is critical to the course of political structural reform as well as the modernization of administration and management and the drive to make it scientific. Apart from developing education systematically in accordance with a plan, we must rely on continuing education for these people. It is imperative, therefore, that we guide the young cadres to spend their free time properly. First of all, we must vigorously publicize the socialist spiritual civilization and help young cadres develop the right philosophy of life, a scientific and rational lifestyle, and the concept of life-long education. Second, we must strengthen and perfect the incentive mechanism and improve the cadre appointment system and the income distribution system to encourage young cadres to study arduously and strive to get ahead. Third, all departments and units and even society at large must concern themselves with after-hours self-study by young cadres as well as their spiritual and cultural life by providing books, materials, teachers, sites, funds, and other essential conditions; organizing activities; and providing guidance so that the young cadres will use their free time effectively to lead a rich and diversified cultural and spiritual life after work and improve their quality all around.

NATIONAL AFFAIRS, POLICY

Distribution of State Enterprise Income

HK2606115292 Beijing JINGJI YANJIU in Chinese
No 3, 20 Mar 92 pp 31-39

[Article by He Ping (0149 1627) and Nie Mingjun (5119 2494 7165) of the Bureau of Wages of the Ministry of Labor; "Distribution of the Income of State Enterprises"; edited by Ye Di (0673 2769); dated December 1991]

[Text] State enterprises are the pillars of the socialist economy, and the income of state enterprises constitutes an important component of national income. The distribution of the income of state enterprises is the primary distribution of national income. How the interests of the state, enterprises and individual staffs and workers are handled in this primary distribution not only directly affects efforts to stabilize state revenue, invigorate enterprises and arouse the enthusiasm of staffs and workers for labor, but is of decisive importance and significance to the further deepening of reform, the healthy development of the national economy and the consolidation of the socialist system.

Lately, differences have occurred in the way people understand the distribution of the income of enterprises, and grossly contradictory measures have been proposed. For instance, many factory directors (managers) are of the view that the burdens of enterprises are much too heavy. With over 80 percent of their income taken away by the state in the name of all kinds of taxes, charges, bonds, and funds, they are left with so meager a sum that they simply do not have the necessary resources to develop production. Some departments reflected that as a result of tax reduction and letting enterprises retain a proportion of profits, the share of enterprise income turned over to the state became smaller and smaller, thereby putting the state financial administration in a tight spot. Some people attributed these problems to excessive growth of workers' wages, asserting that wages had eaten into profits. The truth is, during the Seventh Five-Year Plan, wage growth did not reach the projected 4 percent average annual real growth (growth actually realized was 2.4 percent). In order to clarify the facts and provide a policy basis for further efforts to bring into better balance the distribution of interests between the state, enterprises, and individual staffs and workers, we analyzed the direction, course, and volume of flow in income distribution between the years 1978 and 1989, and conducted studies on a number of relating issues.

1. The Defining of Interests Entities in the Distribution of the Income of Enterprises

In theoretical terms, the income of an enterprise is the magnitude of value newly created by an enterprise in production and operation over a given period. In other words, it is the net income of an enterprise (hereafter referred to as "enterprise income") after deducting physical deterioration from total sales proceeds. The interest entities in the distribution of enterprise income may be briefly put as the state, enterprises, and individual staffs and workers.

1. The concrete form of state income is the income of the state financial administration, which is established for the

purpose of realizing the functions of the government (including the central and local governments). Readjustment or changes of government functions (mainly referring to its three major functions, that is, to represent the equity of state enterprises, carry out macroeconomic regulation and control, and manage the affairs of the state) in different historical stages require corresponding changes in the system of fiscal expenditure. In other words, there should be unity between the administrative and financial powers of the state, and this is the theoretical starting point for determining the share of the state in the distribution of enterprise income. As the autonomy of enterprises in production and operation gradually increased after reform, the financial power of enterprises also increased proportionately. The delegation of administrative power to the lower levels also required corresponding readjustments in revenue and expenditure. Thus, the reduction in the share of the state in the distribution of enterprise income and the increase in the proportion of profits retained by enterprises at this stage was just an objective reflection of economic development. In essence, this change embodied the unity of the responsibilities, rights, and interests of various interest entities, and did not reflect the transfer of real income.

2. The aim of the reform of state enterprises is to turn state enterprises into commodity producers and operators who carry out independent economic accounting, make their own decisions, assume sole responsibility for profits and losses, and have the ability to develop and control themselves. In accordance with the principle of the separation of ownership and management, enterprises have the responsibility and obligation to make use of their management power to valorize state assets, increase economic returns, and contribute taxes, charges, and funds to the state. Also, under the guidance of the state, they have the power to make arrangements for production, organize sales, make investments with their own funds, and decide their own wage form and method of bonus distribution. The interests of enterprises mainly find expression in the right to dispose of productive funds retained for their own use after turning over to the state a prescribed proportion of their realized profits. Following the replacement of state allocations by loans, the state permits enterprises to repay bank loans with profits generated by investment prior to tax payment. It is difficult to judge by their nature whose income before-tax loan repayments belong to. In terms of their influence on state revenue, the state's share is reduced while enterprises are getting more. Because it means that the state is allowing enterprises to retain a larger proportion of profits, they should be considered enterprise income. However, because the property thus formed is state owned, enterprises are merely taking over from the state the task of making investments. Thus, they should be considered state income. Viewed from this perspective, the boundary between the state and enterprises as different interests entities is obscure and theoretically difficult to define. When analyzing relations among the interests of the three, we may as an interim measure assume productive funds at the disposal of enterprises, including profits retained for special projects, profits

retained after tax (excluding amounts drawn for bonus and welfare funds) and before-tax loan repayments, to be enterprise income.

3. Staffs and workers of enterprises have a double identity. As a factor input, their labor is the most active of all productive factors. As recipients in the distribution of proceeds from production, they are the ultimate interest entities. On this basis, their income should comprise normal compensation for labor consumed, plus a reasonable share of the net income of their enterprise. The wages of state enterprises should embody the socialist principle of to each according to his work. Theoretically, this principle is beyond doubt, but in practice it is often ignored. The "comprehensive welfare policy of low wages and excessive subsidies" and its related system of "everybody eating from the same big pot," as well as the unfair distribution of income in society, are two major problems in the sphere of distribution. At present, there is an urgent need to bring into better balance the system of distribution of personal income, intensify wage reform in state enterprises, and implement the principle of to each according to work in order to arouse the enthusiasm of staffs and workers in their hundreds of millions.

4. The state, enterprises, and staffs and workers are relatively independent interests entities in distribution. They are interrelated and inseparable entities. Their interests are at once opposite and identical. Under dynamic conditions of a given total income, there are contradictions of relative growth and decline in the structure of these three interests entities. Insofar as their essence is concerned, these contradictions are contradictions between the long-term and short-term interests of the masses. This is a logical inference on the theoretical level, and the problems this poses in practice are much more complicated and profound. Take for instance the contradiction between the efforts made by enterprises and their staffs and workers to maximize their benefits and "the joint possession of property in a collective form." After the wages of staffs and workers were tied to the economic performance of their enterprise, some enterprises tried to seek illegitimate income by reducing depreciation charges, raising prices, and falsely reporting increases in gains. However, their efforts not only encroached upon state assets but deprived other enterprises of their rightful gains. The discharge of government functions depends on two factors, namely, correct decisions in identifying the targets and devotion on the part of government functionaries. If the government makes mistakes in its policy decisions, the interests of the state and the people will be jeopardized. If the distribution system for government functionaries cannot reflect the principle of to each according to work, and if egalitarian tendencies based on a low wage level are not quickly put right, the personal goals of government functionaries will take other forms, such as expanding the organizational structure, seeking promotion to a higher position, and abusing one's power to engage in feasting, grabbing, blocking requests, and seeking gains. In work, they tend to contend for power, shift responsibility to others, or wrangle over trifles. The proper handling of the interests of the state, enterprises, and staffs and workers is, in theory as well as in practice, a question that demands careful study. In

particular, it demands that we gradually bring their relations into better balance by economic means in the course of economic operation. If we merely rely on moral codes or administrative means, the effects will be very limited.

II. Channels and Quantification of Income of Different Interest Entities

The direction of flow in the distribution of net enterprise income in the finances of enterprises mainly finds expression in taxes, profits (including profits turned over, profits retained by enterprises, before-tax loan repayments, and profits retained by enterprise for single projects), wages, insurance and welfare payments to staffs and workers, and other items. Take state industrial enterprises for example (see below), net income totaled 259.16 billion yuan in 1989.

The state financial administration levies taxes on net enterprise income through the following four channels: First, circulation taxes levied on sales proceeds, five types in all, totaling 93.65 billion yuan, accounting for 54.2 percent of the realized profits and taxes of enterprises, or 71.5 percent of state revenue. Second, taxes levied on enterprise capital, six types in all, totaling 3.4 billion yuan, accounting for 2 percent of the realized profits and taxes of enterprises, or 2.6 percent of state revenue. Third, contractual profits levied on the realized profits of enterprises (including income tax and regulatory tax), totaling 25.93 billion yuan, accounting for 15.6 percent of realized profits and taxes, or 19.8 percent of state revenue. Fourth, funds, taxes, and charges levied on the after-tax profits retained by enterprises, mainly in the form of funds for energy and transport projects and funds for budgetary regulation, totaling 7.91 billion yuan, accounting for 4.6 percent of realized profits and taxes, or 6 percent of state revenue. Total taxes from the above four channels totaled 130.89 billion yuan, accounting for 51 percent of net enterprise income, or 75.7 percent of the realized profits and taxes of enterprises.

The share obtained by enterprises in income distribution comprises the following five main components: Funds for the development of production, totaling 14.63 billion yuan; funds for the trial manufacture of new products, totaling 3.01 billion yuan; and reserve funds, totaling 1.33 billion yuan; all of which are drawn on profits retained by enterprises. Profits retained for single projects, totaling 840 million yuan, and before-tax loan repayments, totaling 17.93 billion yuan, both of which are drawn on realized profits. These total 37.74 billion yuan, accounting for 14 percent of the net income of enterprises, 21.8 percent of realized profits and taxes, or 55.6 percent of realized profits.

The share obtained by staff and workers in income distribution mainly comprises wages and insurance payments. Under the existing financial accounting system of enterprises, channels for the wage income of staffs and workers are both excessive and complicated. But still there are two main channels. First, wages allowed in cost (including standard wages, allowances, and subsidies), totaling 62.74 billion yuan, or 7.7 percent of the total cost of enterprises (with very little variation during the past 12 years). Second, bonus funds drawn on profits retained by enterprises after tax, totaling 4.23 billion yuan. The total wage income of staffs and workers amounts to 67 billion yuan, accounting

for 26 percent of the net income of enterprises. There are three main channels for drawing insurance and welfare payments for staffs and workers: First, welfare benefits drawn on cost according to a given percentage of wages (usually 11 percent), totaling 5.19 billion yuan. Second, welfare funds drawn on profits retained by enterprises, totaling 4.75 billion yuan.

Third, insurance payments (mainly to cover the living expenses of retired personnel) allowed in nonoperating expenses, totaling 13.6 billion yuan. The aggregate total is 23.53 billion yuan, accounting for about 9 percent of the net income of enterprises.

The ratio of the shares of the state, enterprises, and staffs and workers in the distribution of net enterprise income is 51:14:35. (Footnote 1) (The above figures are taken from the 1989 financial statement of enterprises published by the Ministry of Finance.)

III. Dynamic Analysis of the Structure of the Income of Different Interest Entities and Their Interrelations

During the 12 years from 1978 and 1989, the structure of the income of the state, enterprises and staffs and workers and their interrelations underwent the following changes:

1. The composition of state revenue switched from profit-based to tax-based.

In 1978, the state received from state industrial enterprises 70.59 billion yuan in profits and taxes turned over. Of these, circulation taxes totaled 26.58 billion yuan, accounting for 37.7 percent; profits turned over totaled 44.01 billion yuan, accounting for 62.3 percent. After the second step of the replacement of profit delivery by taxes, the state financial administration gradually introduced several new kinds of taxes and raised the tax rate on a number of circulation taxes. Part of the profits of enterprises thus turned into tax payments. By 1989, of the 122.98 billion yuan received by the state in profits and taxes, circulation taxes accounted for 79 percent while profits turned over only accounted for 21 percent. The proportion of tax payment increased by 41.3 percentage points. The details are shown in Table 1.

At present, the trend of replacing profit delivery by taxes is still developing. This cannot be separated from the policy of ensuring the steady growth of state revenue by introducing new categories of taxes and raising the tax rate. During the Seventh Five-Year Plan, income from taxes accounted for 90.4 percent of total state revenue, 15.8 percentage points up on the Sixth Five-Year Plan. The system of heavy taxation with multiple categories of taxes and high tax rates has no doubt brought heavy burdens to bear on enterprises. In 1990, industrial production declined, with the scale of losses sustained by enterprises reaching 34 percent. Together with enterprises with meager profits, they made up more than half the total number of enterprises. Commercial enterprises suffered losses across the board. In spite of this, state revenue still increased by 10 percent. This phenomenon where the tree is dying but the branches are still thriving is extremely unnatural.

2. Among the funds at the disposal of enterprises, the proportion of before-tax loan repayments increased.

Funds at the disposal of enterprises totaled 2.21 billion yuan in 1978 and reached 37.74 billion yuan by 1989, growing at an average rate of 26.7 percent a year. This is not a slow growth rate. However, the proportion of before-tax loan repayments tended to increase, growing from 38.5 percent in 1985 to 47.5 percent in 1989. Due to the shortage of funds on hand, more and more enterprises are relying on bank loans to sustain and enlarge the scale of production. Loans outstanding totaled 35.21 billion yuan in 1984, but soared to 213.72 billion yuan by 1989, increasing at an average rate of 43.4 percent a year. In the next few years, enterprises will be faced with increasing burdens from loan and interest payments.

3. In the composition of staff and worker income, the proportion of non-wage income and hidden subsidies gradually increased.

At present, the composition of staff and worker income (including wages and all kinds of open subsidies but excluding hidden subsidies and welfare benefits) is becoming more and more diversified. Total wages under state control are seen to be steadily growing. Particularly worth mentioning is that the proportion of standard wages, which are subject to strict control, in the total wages of staff and workers is steadily on the decline, dropping from 85.7 percent in 1978 to 54.8 percent in 1989.

On the other hand, bonuses, allowances, and subsidies showed rapid growth, increasing by 15 times over 12 years, or an average yearly rate of 26 percent, nearly 1.5 times higher than the 10.7 percent growth in staff and worker standard wages. The nonwage income of staff and workers increased at an even faster rate, soaring at an average rate of 30 percent a year from 20.8 billion yuan in 1985 to 77.3 billion yuan in 1990. Total nonwage income amounted to 26.2 percent of the total wages of staffs and workers. In addition to money income, staffs and workers also indirectly received from their units or the state welfare benefits and hidden subsidies amounting to an estimated 89.2 billion yuan, equivalent to 37.8 percent of their total wages (see Diagram 1).

The general trend of development in the distribution of personal income in China in recent years is as follows: In the structure of the total wages of staffs and workers, increases in bonuses and allowances exceeded increases in standard wages. In the cash income of staff and workers, increases in non-wage income exceeded increases in wages. In the total real income of staffs and workers, increases in income in the form of welfare benefits exceeded increases in money income. In the income of urban residents, increases in the income of the self-employed exceeded increases in the income of staffs and workers.

4. The proportion of distribution among the state, enterprises, and staffs and workers also changed.

The proportion among the state, enterprises, and staffs and workers in the distribution of net enterprise income was 78:2:20 in 1978, but changed to 51:14:35 in 1989, with enterprises gaining a 12 percentage point increase and staffs and workers gaining a 15 percentage point increase (with wages up by 9 percentage points and labor insurance and

welfare benefits up by 6 percentage points) in their respective shares, while the state's share was slashed by 27 percentage points (see Table 2).

There are no clear lines of demarcation among the three interest entities of the state, enterprises, and staffs and workers, and their interests often overlap. This adds to the difficulty of quantifying and analyzing changes in their proportional relationship. However, the general trend of a declining state share (dropping to a low of 50 percent in 1988 and picking up in 1989) vis-a-vis a growing share for staffs and workers and enterprises (rising to a high of 17 percent in 1988 and showing a downturn in 1989) is quite obvious.

IV. Major Factors Affecting Changes in the Proportional Relationship Among the Three

The basic reason for changes in the respective shares of the state, enterprises, and staffs and workers in the net income of enterprises is the readjustment of the policy of income distribution following the reform of the economic system. The corresponding readjustment of the responsibilities and powers of the three reflects the correspondence between the responsibility, rights, and interests of various interest entities.

1. Despite getting a larger share of the income, enterprises still feel overburdened mainly for the following reasons:

(1) Instead of getting appropriations from the state, enterprises now have to raise their own funds for investment in fixed assets. In 1989, state appropriations only accounted for 13.4 percent of total investment in fixed assets in the state sector (a considerable part of which was nonproductive investment), 28.6 percentage points less than in 1980. Because of this, enterprises had to invest over 50 billion yuan, or 19 percent of their net income, in fixed asset themselves. This is an outcome of the reform of the state investment system and reflects changes in the form of fund operation.

(2) Instead of using state funds without compensation, enterprises now have to pay for the use of bank loans. The switch from appropriation to loans in providing funding for investment in fixed assets and the introduction of "full loans for circulating funds," 1.4th of which were aimed at increasing the fund utilization efficiency of enterprises, turned part of enterprise income into interest payable to banks, while the bulk of the profits of banks were still turned over to the state financial administration (profits totaled 40 billion yuan in 1990, and 27 billion yuan were turned over to the state). This chunk of financial income was expended as cost in the finances of enterprises and was not reflected in the income share of the state. In 1989, industrial enterprises paid nearly 30 billion yuan in interest, nearly 11.5 percent of their net income. The phenomenon of interest payment eating into the profits of enterprises is likely to spread in the next few years.

(3) The paid use of new technologies by enterprises has resulted in the transfer of part of enterprise income to scientific research institutions. In 1989, enterprises spent nearly 10 billion yuan on technological transfers, the development of new technologies, and so on.

(4) In its efforts to readjust the "price scissors" between industrial and agricultural products, the state has substantially raised the procurement price of agricultural products

(135 percent over 12 years). This has resulted in rising cost for enterprises (including material cost and labor cost).

(5) Indiscriminate demands made by government departments and organizations at all levels and by various quarters have increased the burdens of enterprises and resulted in a drain of their income. Estimates based on a survey of typical cases show that these totaled some 3 billion yuan in 1990, amounting to 11 percent of the realized profits of enterprises.

2. There are three main reasons for the increase in the share of staffs and worker income:

(1) "Repaying outstanding debts" to staff and workers. For 26 years after the founding of the People's Republic, China implemented a policy of "high accumulation, low consumption," with little change in the distribution of the national income. Investment in fixed assets grew at an average rate of 11.1 percent a year. The wages of staffs and workers were in a frozen state for years, with annual increase averaging 0.37 percent. During this time, there were 14 years when wages actually registered drops. This distribution policy and pattern not only led to protracted imbalance in the production structure, but seriously dampened the enthusiasm of the vast numbers of staffs and workers. They failed to bring about prosperity in society. After the Third Plenary Session of the 11th CPC Central Committee, the first thing on the agenda in the realm of distribution was to "repay debts outstanding" by reducing excessive accumulation, suitably raising wages and increasing consumption. In 1978, 1979, and the years from 1981 and 1983, the state successively readjusted staff and worker wages across the board, by groups or by stages. These readjustments were all in the nature of "debt repayment" and were aimed at resolving the problem of low wages. During this period, the readjustment of the distribution policy increased the proportion of staff and worker wages in enterprise income by five percentage points.

(2) Staffs and workers were given wage increases to subsidize price rises. Four-fifths of the wage increases for staffs and workers went to subsidize price rises. During this 12-year period, the average annual wage for staffs and members increased by 1,320 yuan from 615 yuan to 1,935 yuan. However, during the same period, the cost of living index increased by more than two times. After allowing for this factor, the real wages of staffs and workers should be 882 yuan. This means that during these 12 years the real wage income of staff and workers only increased by 267 yuan.

(3) The proportion of wages in cost has been quite stable. According to data on the financial statistics of industrial enterprises released by the Ministry of Finance, labor cost (wages and welfare payments to staff and workers) in the total cost of enterprises basically remained at around 8.2 percent between the years 1985 and 1989. In the meantime, the proportion of the total wages of staffs and workers in the national income remained at around 19 percent during this 12-year period. This showed that increases in staff and worker wages had been moderate. The proportion of staff and worker wages in the net income of enterprises registered a bigger increase primarily because of changes in comparable items. If part of enterprise income is transferred elsewhere or lost, the total income against which wages are compared will

be reduced. This will produce a spurious increase in the proportion of staff and worker income.

V. Assessment of Changes in Relations Among the Three

At present, a major problem is the tendency to favor some people in the distribution of social income. Residents' monetary income has registered substantial increases and surpluses at the same time. In 1989 alone, there was a net gain of 185 billion yuan. That year, the total wages of staffs and workers only increased by 30 billion. Even if the entire sum was carried forward, it amounted to no more than one-sixth of that surplus. The following sources are reckoned to be the main factors for increased cash in the hands of residents: First, the net income of peasants was up by 60 billion yuan. During the 12-year period, the monetary income of rural residents increased by an average of approximately 22 percent a year, about eight percentage points more than the increase in national income. Second, income from personal assets, interest and the like amounted to 60 billion yuan. Third, income from secondary occupation and other services amounted to 40 billion yuan. Fourth, the income of private entrepreneurs and the self-employed amounted to over 24 billion yuan. By comparison, the proportion of staff and worker wages that reflects the principle of to each according to his work is on the decline. This is extremely unfavorable to our efforts to stabilize the ranks of staffs and workers of state enterprises and arouse their enthusiasm, and has drawn considerable attention. However, this does not mean that state enterprises should also give excessive preference to individuals in distribution.

On the question of the distribution of enterprise income, there are divergent views on what constitutes an appropriate share for the state, enterprises, or staffs and workers and on how to assess the readjustments and changes in the relations between the three because a unified yardstick is lacking. From different standpoints, we are likely to see things differently and come up with different conclusions. Since 1979, there have been readjustments and changes in relations among the interests of the three. Seen as a whole, these readjustments and changes are both reasonable and appropriate, and major changes are inadvisable. Of course we do not deny the presence of problems. However, we can only make partial improvements and readjustments, and must not take the year 1978 as the standard and revert the proportional relationship among the three back to that level. Changes in distribution over these 12 years have produced successes in at least three ways:

1. National strength increased and the economy boomed. Changes in the distribution relations among the three were the original intention as well as the end-result of reform. They were the concrete embodiment of the policies adopted by the party and government in this historical period to enliven the economy, invigorate enterprises, and bring prosperity to the nation and the people. The anticipated results were achieved. This period saw rapid growth and exuberant vitality in our economy, with total industrial output value increasing by 12.8 percent, national income increasing by 9 percent, and state revenue increasing by 8.7 percent annually. It was a most brilliant page in the 40-year history of New China.

2. A number of enterprises were invigorated. Following improvements in the relations between the state, enterprises, and staffs and workers in terms of responsibility, rights and interests, state enterprises underwent changes in at least three ways. First, changes in the enterprise concept. The concepts of market, competition, cost, efficiency, quality, service, and manpower were gradually strengthened in the course of enterprise management. Second, changes in enterprise operational mechanisms. The director (manager) responsibility system, contracted managerial responsibility system, internal management responsibility system, the system of wage distribution within enterprises and other reform measures were assimilated by enterprises. On the question of income distribution, in particular, steps were taken to put to an end the practice of "eating from the same big pot" which prevailed in the relations of enterprises to the state. Third, changes in basic management work. Enterprises began to adopt modernized methods and means of management. Various basic tasks, including standardization, measurement, fixing of quotas, rules and regulations, education, training, information, and development of work groups or teams, were gradually restored and strengthened during those 12 years.

It should be noted that conditions are uneven between enterprises. While large enterprises like the Shoudu Iron and Steel Company, Baoshan Iron and Steel Company, Wuhan Iron and Steel Company and the Shanghai No.2 Textile Machinery Plant developed rapidly, quite a large number of enterprises were in dire straits. A comparison between two recent surveys on the Shoudu Iron and Steel Company and the Shanghai Metallurgical Bureau will tell us the reason for this phenomenon. The two units had basically the same conditions before 1978. They were on the same starting line then, but showed great disparity after 12 years.

During those 12 years, the realized profits of the Shoudu Iron and Steel Company increased at an average of 17.7 percent a year; profits turned over increased at an average of 7.7 percent a year; while profits and taxes turned over increased at an average of 10.4 percent a year. On the part of the Shanghai Metallurgical Bureau, these three indices decreased at an annual rate of 10.6 percent, 13.8 percent and 0.9 percent respectively. There are many reasons for this disparity (for example, the timely readjustment of the product mix, a capable leadership group, strict basic management systems, and the readjustment of the price of raw and semifinished materials), but a basic and universally acknowledged reason is that in handling distribution relations between the state and the enterprise, the Shoudu Iron and Steel Company "let in water to breed fish" while the Shanghai Metallurgical Bureau "drained the pond to get all the fish." The following data can serve as proof:

During this 12-year period, the share turned over to the state by the Shoudu Iron and Steel Company dropped by 38 percentage points, but the absolute amount turned over increased steadily from 370 million yuan to 1.21 billion yuan. Although the share turned over by the Shanghai Metallurgical Bureau remained at 70 percent in 1990, the absolute amount turned over declined from year to year. In 1978, the amount turned over was three times that turned over by Shoudu, but in 1990, it was 180 million yuan less. This shows that

enterprises are the source of social wealth. When enterprises have vitality and production is developed, revenue will increase and staffs and workers will earn more.

3. Marked improvement was made in the living standards of staffs and workers.

Between 1978 and 1989, the real wages of staffs and workers increased at an average of 3.3 percent a year while the living standards of residents improved at a rate of 6.9 percent. This was a period which saw the fastest growth in the people's income and the most obvious improvement in their living standards in the 40 years of socialist construction. The reform and open policy enabled the people to shake off poverty and move toward prosperity. It won the whole-hearted endorsement and support of the broad masses of the people, and created a stable political and social environment for building socialism.

VI. The Major Problems at Present and Several Policy Proposals

The major problems at present are:

1. The structure of state revenue and expenditure cannot suit the needs of economic development. From the income structure, we can see that during the 12 years of reform, diverse economic sectors developed rapidly. The output value created by nonstate enterprises accounted for 44 percent of gross industrial output value, but still it was mainly the large and medium state enterprises that constituted the backbone of state revenue. State enterprises have to bear high tax rates and financial burdens and are subject to strict control. By comparison, enterprises in other sectors have much lower tax rates and tax burdens. They also enjoy all kinds of tax reductions or remissions. Tax levying and management is also more loose toward them, and tax evasion is common. In order to achieve both tasks, that is, invigorate state enterprises and ensure state revenue, shifting the focus of state revenue may be our only option. At present, the least we could do is to introduce fair tax burdens for enterprises in all economic sectors so that they can compete on an equal footing. Toward the steadily growing accumulation of residents' money income, it is necessary to strengthen management by requiring tax payments according to law. From the angle of expenditure, we can see two problems. The first problem stems from overstuffed organizations, with too many people living on "imperial grain," that is, on the government payroll. The second problem stems from the growing burdens of government subsidies. The streamlining of administration and the reduction of subsidies are the only way out of the present financial predicament.

2. The problems confronting enterprises mainly find expression in the following two respects. First, enterprises do not truly enjoy autonomy in production and internal wage distribution, and there is still excessive administrative interference from all quarters. Second, since a large part of wage payment is drawn on profits retained rather than on cost, the equity owner (state) plays no part in the distribution of profits and its place is taken over by staffs and workers. Moreover, the channels through which wages can be drawn are both numerous and confusing, and the financial management system of enterprises is not strictly enforced. Thus

there are serious revenue losses due to various kinds of evasion through these channels. The reason for the above-mentioned phenomena is twofold. On the one hand, enterprises do not have a mechanism of self-development and self-control and have not been able to assume responsibility for their own profits and losses. On the other hand, the operational mechanisms of enterprises are not rational and their distribution is based on short-term considerations.

3. The principal contradiction in individual income stems from egalitarianism in wage distribution and expansion of nonwage income. Due to obstacles in the principal channel for increasing wages, enterprises cannot rely on normal means of wage increase to implement the principle of to each according to his work.

Summing up, our basic conclusion about reforms and the readjustment of interest relations carried out during these 12 years is that the orientation is correct and successes are the main thing. Admittedly preference is given to individuals in the distribution of national income. This mainly finds expression in the excessive growth of the non-wage income of some urban inhabitants. In the distribution of the budgeted income of state industrial enterprises, it is true that there are problems in some enterprises, but on the whole distribution relations among the state, enterprises, and individual staffs and workers are rational. Hasty and excessive readjustments are inadvisable. Efforts should be made to stabilize the basic policies since the Third Plenary Session, take the improvement of economic performance as the central task, and gradually resolve the present problems through the deepening of reform.

Based on the above study and analysis, we are putting forward the following proposals:

1. On the question of the distribution of interests among the state, enterprises, and staffs and workers, we should adopt stable policies and should not make large readjustments. At present, enterprises and the state financial administration are both strapped with difficulties. The state no longer has the resources to continue to "pump water" into enterprises, and if it were to increase taxation, enterprises will not be able to bear the burden. Under present conditions, it is necessary to help enterprises build up their "blood-making mechanism," even though it means further hardships for the state. We should, through the gradual dissemination of the experience of the Shoudu Iron and Steel Company, the improvement of the enterprise contract system and the method of tying income to performance, encourage enterprises to increase productive input by way of technological upgrading so as to help enterprises out of their predicament first. On the basis of developing production, we can then increase state revenue and raise the wages of staffs and workers.

2. The question of the distribution of income to individuals must be tackled comprehensively in the interests of the whole society. It is proposed that the state set up a leading department for reform of the distribution system. This department is to be responsible for formulating unified principles and policies, mapping out plans, and coordinating relations among the departments concerned. The overall guiding ideology is that we should intensify reform in the realm of

distribution, implement the principle of to each according to his work, intensify wage reform, and tackle the problem of unfair distribution in society in a comprehensive way.

3. The following concrete measures may be adopted by enterprises in their wage reform:

On the macroeconomic level, special efforts should be made to strengthen regulation and control over wage growth at the regional and departmental level, straighten out the management system, and eliminate the problem where policies are coming from different authorities and responsibility and power are not clearly defined in wage distribution. The method of total pegging and contracting stipulated in document No.25 issued by the State Council in 1988 must be resolutely implemented, and there must be a "ceiling" or limit, for increases in the total wages of individual regions.

Enterprises must overcome egalitarianism in their wage system and closely combine the labor contributions of staffs and workers with their wages.

4. In the tackling of swelling consumer demand, special attention must be paid to residents' nonwage money income. The following are two major approaches available:

First, guide money income in the hands of residents (totaling 1,051.8 billion yuan, of which 703.4 billion yuan are in personal savings, 276.2 billion yuan are in cash, while 72.1 billion yuan are in bonds) toward productive investment, and encourage individuals to buy shares and production bonds or invest in housing construction.

Second, adopt a policy of restriction and contraction toward the nonwage income of residents. This mainly refers to the purification of the channels for personal income, regulating the excessively high income, declaring a ban on illegal income, and increasing regulatory taxes on individual income.

5. Positive efforts should be made to explore the possibility of forming in enterprises a mechanism where owner representatives, operators and the collective body of workers each discharges responsibility while encouraging and restricting one another. An example of this is the experimentation of the shareholding system.

Table 1: Changes in the Profit Structure of Industrial Enterprises and the Profits and Taxes They Turned Over During 1978-1989

(Unit: 1 billion yuan)

Year	Total	Total Realized Profits and Taxes			
		Taxes		Profits	
		Absolute Amount	Percent	Absolute Amount	Percent
1978	73.208	26.582	36.3	46.626	63.7
1989	154.401	97.049	62.9	57.351	37.1

Year	Total	Profits and Taxes Turned Over			
		Taxes & Profits Turned Over		Profits Turned Over	
		Absolute Amount	Percent	Absolute Amount	Percent Amount
1978	70.311	26.582	37.8	43.730	62.1
1989	172.976	97.049	56.1	75.930	43.9

Diagram 1: Composition of Employees' Income

I. Direct Income:

1. Wage income:

- (i) Standard wages, totaling 164.4 billion yuan, or 45 percent of total.
- (ii) Allowances and subsidies, totaling 80.5 billion yuan, or 21.6 percent of total.
- (iii) Bonuses, totaling 50.2 billion yuan, or 10.4 percent of total.

2. Non-wage income:

- (i) Income in the form of labor insurance and welfare benefits, totaling 18.2 billion yuan, or 3.8 percent of total.
- (ii) Income from secondary employment, totaling 40.1 billion yuan, or 8.3 percent of total.
- (iii) Income from personal assets, totaling 19 billion yuan, or 3.9 percent of total.

II. Indirect Income:

- 1. Labor insurance and welfare benefits, in the form of day-care centers and nurseries, mess halls, medical services, cultural and recreational facilities, totaling 27.5 billion yuan, or 4.6 percent of total.
- 2. State subsidies for (1) grain and oil, (2) meat, eggs and vegetables, (3) water, electricity and coal, (4) housing, and (5) others, totaling 89.2 billion yuan, or 18.4 percent of total.

Source: 1990 Statistical Yearbook on Labor Wages published by the State Statistical Bureau, as well as data from sample survey conducted by the Ministry of Labor and the State Statistical Bureau.

Table 2: Income of the State, Enterprises and Staff and Workers and the Ratio between the Three

Unit: 1 billion yuan

Year	Net Income of Enterprises	Income of the State			Two Funds ^a
		Total	Taxes	Profits	
1978	90.60	70.31	26.58	43.73	
1984	135.47	95.05	41.00	54.04	4.32
1991	107.60	94.93	56.11	32.93	5.89
1986	172.00	97.10	61.73	29.48	6.13
1991	109.50	107.17	67.66	29.58	8.08
1988	234.31	131.75	83.47	28.02	7.48
1989	238.18	140.88	97.07	25.93	7.91

Year	Total	Income of Enterprises	
		Loan Repayments	Retained Profits
1978	2.31	1.43	0.78
1984	11.63	5.23	6.40
1985	20.22	7.18	12.04
1986	21.04	9.10	11.94
1987	28.98	13.90	15.08
1988	30.48	18.33	21.15
1989	37.74	17.93	19.81

Year	Income of staff and workers		Insurance and Welfare benefits	Ratio (%)
	Total	Wages		
1979	18.12	15.90	2.62	78.228 (17.11)
1984	38.84	29.94	8.67	64.828 (17.22)
1985	46.33	34.70	11.63	59.1229 (21.63)
1986	53.70	40.42	13.28	57.1231 (23.63)
1987	61.76	45.90	15.86	53.1532 (23.77)
1988	77.07	56.90	20.08	50.1133 (24.4)
1989	90.53	67.00	23.53	51.1433 (26.0)

Notes: The "Two Funds" under the "Income of the State" column refers to "Funds for energy and transport projects" and "budgetary funds," the figures for which are estimates. "Income of the State" does not include subsidies for loans. The 1984 figures for "insurance and welfare benefits" are estimates. Under "Ratio," the figures in parentheses refer to the share of wages in net income.

Table 3: Comparison Between Economic Returns of Shoude Iron and Steel Company and Shanghai Metallurgical Bureau

	Unit: 1 billion yuan			
	1978		1989	
A. Shoude Iron and Steel Company	Absolute Amount	Percent	Absolute Amount	Percent
State income	0.37	76	1.21	38
Enterprise income	0.96	13	1.39	44
Staff and worker income	0.09	11	0.39	18
(Average annual wages)	728		1,200	
B. Shanghai Metallurgical Bureau	1978		1989	
	Absolute Amount	Percent	Absolute Amount	Percent
State income	1.15	83	1.03	70
Enterprise income	0.14	11	0.09	6
Staff and worker income	0.09	6	0.35	24
(Average annual wages)	821		1,044	

Source: Relevant materials from the Shoude Iron and Steel Company and the Shanghai Metallurgical Bureau.

Analysis by Planning Commission Research Unit

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[Article by Wang Jian (3769-1696), edited by Jiang Dongsheng (3592-2639-3932): "A Turning Point in China's Economic Growth Pattern Was Reached in 1991—an Analysis of 1991's Economic Conditions and a Forecast for 1992 by the General Office of the State Planning Commission's Economic Research Institute"]

[Text] 1. China's Economic Growth Pattern Reached a Turning Point in 1991

In order to explain this, we must first give a brief explanation of the analytical method that we are using to determine overall balance.

The key to determining the normality of short-term economic operations is a correct understanding of the state of overall balance. There are many methods of measuring overall balance, which we do not intend to evaluate in detail here. The situational analysis method that we are using here is one that we have not yet seen used by anyone in China to analyze economic conditions. That is, we are taking the sum of overall fixed assets investment, inventory investment (represented by accumulated circulating assets), retail commodity turnover, and customs data on export volume as overall demand, and our GNP at current value as overall supply, in order to measure overall balance.

During the Seventh Five-Year Plan, the accumulated imbalance between these four major demand indicators and our GNP was only 1 percent of our GNP, with the gap being a mere 0.2 percent in 1989 and only 0.9 percent in 1990. As this differential was very small, we thought that we could use it as a means of measuring the state of balance.

It must be pointed out that from a statistical perspective, a set of standard-accounting, identical-relation equations between these four major demand indicators and our GNP certainly does not exist, and that using retail commodity turnover to represent public consumer demand does not cover the very sizeable amount of self-contained peasant consumption. It was only that these four major demand indicators could roughly represent overall demand, our GNP could roughly represent overall supply, the differential was very small, and this method was better than others, that brought us to use it as an effective analytical method.

Using this method, the calculations of all parties and our analysis show that our estimated 1991 GNP real growth rate was about 7 percent, and that our GNP reduction-index growth rate was about 6 percent, so that our GNP growth rate at current value was 13.4 percent, bringing our 1991 GNP to about 2,0059 trillion yuan. In 1991, our estimated overall fixed assets investment was 520 billion yuan, our overall retail commodity turnover was 940 billion yuan, and our export volume was 570 billion, or 378 billion yuan at an

exchange conversion rate of 5.4 yuan to the dollar. Based on this method of calculation, the difference between our GNP and these three major demand indicators was our inventory investment of 167.9 billion yuan. What conclusions can we reach from these figures?

First, 1991 was the year in which our national economy truly came out of its retrenchment low-point after three years of adjustment.

When we consider economic prosperity, we must use leading indicators such as fixed assets investment, commodity consumption, and exports, inventories as conditioners and reservoirs and thus, lagging indicators, so that they are most used to observe demand changes. In the two years of 1989 and 1990, our three major demand indicators of investment, consumption, and exports grew at a rate of 14.8 percent, while our GNP grew at a rate of 26.2 percent at current value. Disregarding our inventory demand growth, these other three indicators of overall demand grew at a rate of almost only one-half that of overall supply, which caused our market demand slump and large investment in overstocked commodities. But in 1991, these three major demand indicators grew at a rate of 16.8 percent, while our GNP grew at a rate of 13.4 percent. This growth rate of demand being 3 percent higher than that of supply, is the basic sign that our economy has come out of its retrenchment low-point and that this adjustment process has ended.

In fact, it would still have been hard for us to reach such a conclusion even as late as August 1991. As to demand changes, our accumulated retail commodity turnover, after price adjustment, had still grown only "0 percent" in the first six months of 1991 as compared to 1988, with its actual accumulated growth being only 2.3 percent for the first seven months of 1991. Our accumulated state-owned fixed assets investment in the first seven months of 1991 as compared to 1988 was still a negative value, which turned into a positive value only with its accumulation in the first eight months of 1991 as compared to 1988.

Second, not only did our overall structure experience the change of demand growing faster than supply, but our demand structure also underwent a spectacular change in 1991.

Our overall demand structure in 1988 was 30.8 percent fixed assets investment, 51 percent overall retail commodity turnover, 12.1 percent exports, and 6 percent inventories. Through the retrenchment process in the two years of 1989 and 1990, these investment and consumption percentages decreased sharply, while the exports and inventory investment percentages increased sharply. As opposed to the preceding two years, the different trend in our 1991 demand structure meant that investment accounted for a slightly higher percentage, the exports percentage continued to increase, the consumption percentage fell steadily, and a decreasing trend also appeared in the inventory investment percentage.

While our demand structure was changing, our supply structure was also undergoing a slow change, which became clearer after the third quarter. As to our industrial production structure, the output value of our machinery and

electronics products industry grew at an average rate of 22.1 percent in the first 10 months of 1991, which was higher than our average industrial growth rate for the period of 13 percent. The production-marketing rate of our machinery and electronics products industry averaged 95 percent for the first 10 months of 1991, reaching 97.5 percent in October when our machinery and electronics products inventories were 900 million yuan less than in September. During the two months of October and November, the output value of our heavy industry increased faster than that of our light industry, which was rare indeed for recent years. While this was affected by the state's controlling inventories, limiting production, and curbing the light industry growth rate, if this change in the demand structure of increased investment and decreased consumption had not occurred, the order of production and marketing being brisk for heavy industry but slow for light industry would not have arisen, and the state might even have had to put into effect macroeconomic regulation policies to sharply curb light industrial production.

Such a demand and supply growth structure, in which investment and exports led economic growth on the demand side, while heavy industrial growth led the way on the supply side, was very similar to the supply and demand structure of Japan and "the four little dragons of Asia" when their economies first began to take off. While this structural growth trend is still not clear enough, it very possibly indicates that 1991 was not simply the year in which China's economy returned from its retrenchment low-point to normal growth, but also was the first year in which China's economic growth pattern changed from its steady more than 10 years of being driven mostly by consumer and internal demand, to a contemporary one driven by investment and external demand.

II. On Several Issues in China's Current Economic Situation That Must Be Discussed

The first issue is whether our current growth momentum is a sign that our economy is already overheated?

In the first three quarters of 1991, our industrial output grew at a steady rate of about 13 percent. In the fourth quarter, on the heels of an already high growth rate for the fourth quarter of 1990, it again grew at a rate of more than 14 percent, while investment and retail commodity turnover also grew at a faster pace. This led many people to begin to worry about the recurrence of an overheated economy and inflation, and to recommend the adoption of a certain degree of retrenchment measures. While the trend appeared in 1991 of the three major demand indicators growing faster than overall supply, this was only from a growth rate perspective. As demand growth was curbed sharply during the two years of retrenchment, the base was too low, the growth rate was high, and the growth was still less than that of overall supply, which is precisely why our inventories are still growing too fast in 1992. The historical data shows that from 1979 to 1988, our ratio of accumulated circulating assets to GNP averaged 6.4 percent, including a slightly higher 6.5 percent after 1984. As was pointed out above, our ratio of inventory to GNP was 11 percent in 1989 and 10 percent in 1990, and was still 8.4

percent in 1991, showing that it had obviously not yet dropped to a normal level. This means that from a quantitative perspective, it can be said that we have still not ended in 1992 the state of overall supply exceeding overall demand.

On the other hand, during our two periods of overheated economy in 1984-1985 and 1987-1988, the three major demand indicators grew at a two-year rate of 45-50 percent. At this rate was 16.8 percent in 1991, or only 36.4 percent when converted to a two-year rate, leaving it still lower than 40 percent. It can be said that our current economic operations still do not contain demand factors that would lead to an overheated economy. On the supply side, our maximum two-month industrial growth rate during these two periods of overheated economy was 38 percent, averaging more than 30 percent for the whole of these periods. As our 1991 industrial growth rate peaked in October at only 27 percent, in addition to its high growth rate for October 1990, it was still quite a ways from its peak during the overheated periods. Thus, there are no signs that we have entered an overheated phase from the supply side either.

The second issue is that while we may not yet be in an overheated state, if we sustain our current rapid demand growth momentum, are we not likely to get into such a state sometime in 1992? (This is another issue that is causing widespread concern among many.)

This prospect depends mainly on investment and consumption changes, which means that we will have to make a more detailed analysis of the current state and growth trends of investment and consumption.

First, as to consumer demand, in the first eight months of 1991, retail commodity turnover basically remained roughly the same at around 76 billion yuan a month, while retail prices rose. Thus, our actual monthly growth rate of consumer demand fell roughly from 12 percent during January through April, to 9 percent in May and June, and less than 8 percent by July and August. After the first quarter of 1991, the state again focused on lowering interest rates on savings deposits, raised its selling prices for grain and cooking oil to urban residents, and concentrated on reducing the prices of overstocked consumer goods. While taking these three key steps to stimulate consumer demand in a concentrated way in such a short period of time was unprecedented, consumer demand actually fell from April through August, which gives us a peak at consumer mentality. While the consumer demand growth rate speeded up somewhat after September, reaching its 1991 peak of 14.7 percent in October and November following high growth in the same months in 1990, the faster growth was mainly in group purchasing power and agricultural capital goods. In October and November, the monthly growth rate was 20.8 percent and 18.6 percent, respectively, for group consumption, and 18.7 percent and 19.1 percent, respectively, for agricultural capital goods, while there was certainly not a remarkably fast trend in individual consumption.

Such high growth of agricultural capital goods sales was unprecedented in recent years. It was probably due mainly to peasants having to focus on output to resume production

after the severe natural disasters that occurred in many areas in 1991. As to the change in peasants' cash outlay in the third quarter of 1991, their production cost outlay was 15.8 percent higher than in the third quarter of 1990, while their consumer goods outlay was only 2.8 percent higher, or almost no growth at all after deducting for the change in the rural price index during the quarter.

As to urban individual consumption, take November 1991 when the average per capita monthly growth rate of commodity purchase outlay was 11.9 percent, including 32.9 percent for food, 25.7 percent for medicine and medical necessities, and 16.5 percent for books, newspapers, and magazines. This high growth of outlay was obviously due to the expected urban price increases in 1992. Excluding these three categories, the growth rate of individual commodity purchase outlay was only 6.1 percent. Similarly excluding these three categories, the growth rate of individual commodity purchase outlay was 13 percent in September and 2 percent in October which, added to the 6.1 percent in November, clearly shows a falling trend. Considering the more than 6 percent rise in the urban price index in the last two months, urban individual consumption since October 1991 can be said to have stagnated again. A related condition is that the retail commodity turnover growth for the first seven months of 1991 excluding price changes was a positive 2.3 percent more than in the first seven months of 1988, but a negative 1.8 percent less for the first 10 months. While the increase in the consumption growth rate since the fourth quarter will raise the 1991 consumption growth rate—after considering the 1991 retail commodity turnover of 940 billion yuan and and retail price rise of 3 percent—the 1991 consumption level was actually less than 2 percent more than in 1988. This warrants special attention, because it is exactly what caused the steady decrease in the ratio of consumer demand to the four major demand indicators. If such disastrous climatic conditions do not recur in 1992, major steps are not taken to increase consumer goods prices, and group purchasing power can be curbed somewhat, we have reason to believe that consumer demand will continue to decline in 1992. This leads us to the conclusion that it will be hard for the high growth of consumption since the fourth quarter of 1991 to be sustained, which should dampen the misgivings of those who are concerned about overheated consumer demand.

As to investment demand, two completely contradictory arguments exist. One is that investment remains inadequate, so should continue to be increased, and the other is that there is too much investment, which might lead to a recurrence of an overheated economy, so should be curbed. Which one is correct?

From 1984 to 1988, China's ratio of fixed assets investment to overall demand remained above 30 percent. The retrenchment pushed investment demand to its low point in 1990 of 25.4 percent, which recovered only slightly to 25.9 percent in 1991, or the same as in 1989. During this same period, consumer demand fell 4 points from 33 percent in 1988 to 46.7 percent by 1991. This drop in consumer and investment demand pushed demand for exports and inventories. Taking 6.5 percent as a normal ratio of

inventory to overall demand, we produced a surplus (inventory from 1989 to 1991 of at least a little more than 170 billion yuan. This inadequate domestic final demand and continuous overstocking of commodities made it impossible to use a large amount of foreign exchange export earnings for importing, which produced foreign exchange reserves of over \$20 billion. Considering \$10 billion in foreign exchange reserves as normal and 70 percent of surplus commodities as usable (the other 30 percent being unusable due to being unsalable, rejected, damaged, or inferior), then our current employable foreign exchange of \$10 billion and our commodity inventory of 120 billion yuan means that our economy still has a current investment capability of 170 billion yuan. This leads us to the conclusion that the argument that investment is inadequate is obviously correct. Regarding 1991 entirely, while our state-owned fixed assets investment became a positive value after August, our whole society's fixed assets investment for 1991 of \$20 billion yuan was 7 percent lower than in 1988 excluding the price factor, which illustrates our current still inadequate investment.

In our last two overheated phases, our two-year investment growth rates remained at about 50 percent. Our estimated 1991 investment was 17 percent higher than in 1990 and, while our investment is growing 20 percent in 1992, our two-year growth rate is still less than 40 percent. On the other hand, the obvious difference between our current high investment growth and our last two overheated phases is that both investment and consumption increased then, while consumption is lower and investment is higher now. Moreover, as we still have surplus inventories and foreign exchange reserves, even if our investment growth rate is slightly higher in 1992, we have reason to believe that it is unnecessary to worry about high investment growth causing a recurrence of an overheated economy.

The third issue is how to deal with our current revenue shortfall. After a budget deficit of 14 billion yuan in 1990, we are faced with a possible deficit for 1991 of about 20 billion yuan. And the concerned parties predict that our revenue shortfall is likely to continue to increase in 1992. Whether continually increasing budget deficits will become an immediate or potential factor that will cause our economy to overheat again, is another issue about which many people are concerned.

The impact of fiscal deficits must not be considered simply from the single perspective of financial balance alone. Rather, we must give comprehensive consideration to the relations between financial balance and other economic balances, in order to reach the right conclusions.

As to our 1991 credit balance, it is estimated that our savings exceeded our loans by over 100 billion yuan in 1991, but only by 12.7 billion in 1990. Our credit balance was in the black and not markedly higher than the previous year which, from a credit perspective, shows that our balance was certainly not in an expanding trend. As our ratio of commodity inventory to overall demand remained at a high level of over 8 percent in 1990, following a large increase in the preceding two years, and 6.5 percent is considered normal for this ratio, our balance was still in the black from

a material perspective. In 1991, our estimated exports were \$70 billion and our imports were \$60 billion, leaving us with \$10 billion more in foreign exchange reserves, so that our balance was still in the black from a foreign exchange perspective. Except for our revenue and expenditure being in the red, our credit, material, and foreign exchange balances were all in the black, which shows that what our fiscal deficit reflects is only a structural conflict in our national income distribution, and not a quantitative problem that we need to worry about causing an overall imbalance that would lead to an overheated economy. Of course, steadily increasing fiscal deficits are a serious threat to financial balance *per se*, which might spread in various ways to and have an adverse effect on all sectors of our national economy. Thus, instead of treating them lightly, we must take the necessary steps. Saying that there is no need to be overconcerned about them refers merely to their impact on short-term overall balance.

The fourth issue is inflation. Since the fourth quarter of 1991, as our retail prices have increased at a rate of more than 4 percent a month, with price increases exceeding 7 percent in large and mid-size cities, and our commodity market price index has also shown a rising trend, many people have worried that these continued demand increases will spark inflation again.

If our discussion of the above three issues has shown that demand is certainly not overheated, but even inadequate to a certain extent, this should be able to dispel the current misgivings about a possible outbreak of inflation, because price rises are determined in the final analysis by overall supply shortages. On the other hand, the price rises after the second quarter of 1991 were due mainly to the policy impact of the state's planned modification of many commodity and service prices, which gradually tailed off after the fourth quarter, since which monthly price increases have been in a falling trend. The price development trend is that as long as a major consumer goods price modification policy is not put into effect in 1992, there is very little likelihood that prices will increase more than 8 percent.

The current price trend that warrants attention is not that of consumer goods, but rather that of capital goods. As the production costs of upstream products have increased sharply in recent years, their price rises have become increasingly larger. As to the producer prices of manufactured goods in 1990, mining industry price increases were three times those of manufactured goods (for a ratio of 8 percent to 2.5 percent), which rose to four times in the first half of 1991 (for a ratio of 13.7 percent to 3.5 percent). As to the relation between the producer prices of manufactured goods and retail prices, the producer prices of manufactured goods rose more than 6 percent in the first half of 1991, while the retail price index did not rise more than 2 percent. The major reason why upstream product costs have not yet driven sharp increases in the prices of downstream products and consumer goods, are the restraints of inadequate market demand, and government consumer goods price subsidies to stabilize prices. The large increases in the prices of upstream products and capital goods were mainly cost driven. This has given China's current price trend a feature of obviously

having evolved from the former years of being driven by demand to being driven by cost. If demand eases up somewhat in the future, or if the state eliminates subsidies to achieve a balance of revenue and expenditure, by completely deregulating consumer goods prices, we cannot exclude the possibility of sharp price increases for downstream products and consumer goods, in order to ease cost-driven pressures.

III. An Economic Forecast for 1992

The two major issues that warrant discussion as to 1992's economic development trends are 1. the economic growth rate and 2. the scale of fixed assets investment.

A soundly expanding economy should have neither over-used production capability or production potential that is not brought into full play. From 1984 to 1990, China's GNP actually grew at an average rate of 9.5 percent a year, which rate was 11.5 percent for 1984 to 1988. Meanwhile, our ratio of fixed assets investment to GNP remained above 30 percent. This gives us reason to believe that, as long as China's economy maintains an annual ratio of investment to GNP of about 30 percent, we will be able to achieve a real average GNP growth rate of about 10 percent.

From the historical experience of Japan, Taiwan, and South Korea's economic takeoffs, such a prospect can be illustrated. From 1960 to 1975, Japan maintained a ratio of investment to GNP of 30-33 percent, while everyone is familiar with its "decade of outstanding growth" that occurred during this time, when its GNP grew at a rate of 10 percent. During Taiwan's economic takeoff period from 1966 to 1976, its fixed assets investment was above 27 percent, while its GNP grew at an average rate of 9.6, or almost 10, percent a year. And in South Korea's period of economic takeoff from 1968 to 1980, its investment rate was also about 30 percent, while its GNP also grew at an average rate of 10 percent a year.

In Japan, Taiwan, and South Korea's economic takeoffs, exports increased and consumption decreased, with long-term trends of investment remaining above 30 percent and GNP maintaining a growth rate of about 10 percent, which created their economic miracle of successful transitions to modern economies after World War II. As China's economy experienced a steady drop in consumption in 1991, as well as manifesting a new order of growth spurred by investment and exports, we can be said to be standing on the same starting line as these countries and regions when their economies began to take off. As long as we maintain an investment rate of 30 percent, it is not idle talk to say that we could achieve our modernization in the next two decades. If our 1992 and 1993 GNP growth rates are 5.5 percent and 6 percent, respectively, it seems that they will be too low.

If our 1992 real GNP growth rate is 5.5 percent, and our estimated GNP reduction index is 6 percent, then our GNP growth rate would be 11.8 percent at current value, bringing our 1992 GNP to 2.243 trillion yuan. If our investment is 570 billion yuan, this would seem to be too low also. The factors affecting exports in 1992 are mixed. Hard work can bring our export volume as estimated from customs data to

\$80 billion, or \$10 billion more than in 1991 which, based on an exchange conversion rate of \$1 to 3.4 yuan, will make our ratio of exports to GNP roughly the same as in 1991. Our retail commodity turnover is planned to grow 11.2 percent to 1.045 trillion yuan, to stand in a ratio to GNP of 0.3 percent less than in 1991, or 46.6 percent. If our investment scope reaches the planned 570 billion yuan, it will one-half point lower than in 1991, or 25.4 percent. If our 1992 inventory is 207 billion yuan, to stand in a ratio to GNP of 9.2 percent, this will be 0.8 points higher than in 1991. Not only will this produce new overstocked inventories, but it will also make it harder to find a way to deal with the overstocked inventories and foreign exchange surpluses of 1989-1991.

The actual figures for 1992 may be even more serious than the planned projections. According to estimates by various parties and our analysis, our real 1992 GNP growth rate may top 1 percent which, considering the reduction index of 6 percent, would bring our 1992 GNP at current value to 2.275 trillion yuan. Our 1992 consumption could be 1.5 points lower than in 1991, or 45.5 percent, our retail commodity turnover could be 1.034 trillion yuan, or 10 percent higher than in 1991, while our exports are predicted to remain unchanged. Our 1992 investment could reach 580 billion yuan, to stand in a slightly lower ratio to GNP than in 1991, or 25.5 percent, while our new inventory could reach 229 billion yuan, or more than the increases in the preceding three years, to stand in a 1.4 point higher ratio to GNP than in 1991, or 10 percent. If this turns out to be the real situation, a series of economic problems caused by product overstocking, such as endless triangular debt and poor enterprise economic efficiency, may be even more severe than in 1991.

The conclusion reached from the above analysis is that China's economy is actually capable of maintaining a 10 percent GNP growth rate. Proceeding on this basis, considering a reduction index remaining at 6 percent and projecting a planned, normal ratio of inventory to GNP of 6.5 percent, consumption to GNP of 45 percent, or 12 percent growth, and exports of \$80 billion, our ratio of investment to GNP would be 30.9 percent, or 710 billion yuan. In addition to the 170 billion yuan investment capability from the preceding three years of adjustment surpluses, our 1992 investment could be projected as being 880 billion yuan. Of course, we could also consider adding this surplus investment capability to our investment over a number of years. In addition, according to our overall balance accounting method, a 1 percent error of about 24 billion yuan exists, which could be deducted from our investment capability. Thus, as to 1992, a rational GNP growth rate would be 10 percent, and an appropriate investment would be 750 billion yuan. A 750 billion yuan investment could ensure a GNP growth rate of more than 10 percent, while a 10 percent GNP growth rate would similarly give us a 750 billion yuan investment capability.

It is also necessary here to pay special attention to our industrial growth rate. From 1984 to 1988, while our GNP growth rate averaged 11.5 percent a year, our industrial growth rate averaged 17.5 percent a year. Therefore, as long

as we maintain a GNP growth rate of 10 percent a year, our industrial growth rate should average no less than 15 percent a year. Although an industrial growth rate higher than 15 percent triggered the two periods of overheated economy before 1988, as individual consumption in China in the last three years has risen markedly due to periodic consumption factors—having remained at a stable low long-term level, while our supply of products produced has correspondingly increased—maintaining a long-term industrial growth rate of about 15 percent is not likely to overheat our economy again.

Since the fourth quarter of 1991, our obviously faster industrial output has caused a new supply shortage in communications, transportation, and power. While the limitation on China's future economic growth rate will not be our investment capability, but rather infrastructure "bottlenecks," the only way to overcome these "bottleneck" restraints will be to speed up investment to improve our infrastructure. This will provide the possibility of a sustained economic takeoff.

While our 1992 planning conferences are already over, so that it is impossible to make any large adjustment of 1992's planned string up of the pie, our analysis can still be used as a principle to be considered in future planning. As China's economic growth pattern underwent a qualitative change in 1991, this principle may become a basic one that will be suited to our economic growth requirements for a long time to come.

Before ending this analytical report, we would still like to make some key remarks about the issue of China's existing investment mechanisms. This is another significant issue of policy and principle that will affect whether China's economy can make a successful transition to a new stage of economic growth.

While China is now at the beginning of a long-term large-scale investment, how to go about raising construction-investment funds has become a major current issue. As the government has been sustaining increasingly larger deficits in recent years, it is unable to provide investment funds. And although banks have money, credit funds must be repaid, which severely limits the large-scale investment of bank funds in infrastructures, because infrastructure investments are long-term, high-risk, low-profit, and irrationally priced at present. For instance, it can take two decades to build a large power station, while a newly built railway trunk line is generally a losing proposition during its first decade of operation. This has caused the strange phenomena in China's economy of large increases in commodity and foreign exchange reserves, along with no one having money that can be invested.

In fact, our investment growth since 1991 has basically relied on bank funds. Our estimated 1991 fixed assets investment was 75 billion yuan more than in 1990, while bank investment loans increased 70.7 billion yuan, to account for 93 percent of new investment in 1991. Due to the nature of credit funds, continuing to allow banks to increase loans for infrastructures where there is no repayment capability is certainly making things very hard for

them. Moreover, all specialized banks are already operating as businesses, so that banks have their own independent interests. Thus, maintaining the existing order would not only make it basically impossible to invest the above-mentioned 780 billion yuan in 1992, but would even present a host of difficulties in realizing the planned investment of 570 billion yuan. In order to get around these difficulties, many comrades have been considering the adoption of a direct financing method—raising through stocks and bonds, so as to raise construction funds outside of the banking system.

Whether to adopt a direct financing method (with fundraising through stocks and bonds) or an indirect one (with fundraising through bank savings and loans) is a strategic national choice of investment financing mechanism. The biggest advantage of indirect financing is that interest rates can be controlled by the state banking system, so that fundraising costs are low. Japan used the indirect financing method for a long time after World War II, with bank loans accounting for over 80 percent of enterprise external funding sources. Moreover, the Japanese Government exercised long-term control over savings and loan interest rates, deliberately adopting a forced low interest rate policy. This enabled enterprises to acquire large amounts of long-term, low-interest loans during their rapid growth period, which was one of the factors in postwar Japan's successful economic takeoff. The direct financing method was widely adopted by European and American countries, where enterprise funding was characterized by widespread adoption of a speeded up depreciation policy, so that enterprise fund sources came mostly from depreciation. The internal-external fund ratio of Japanese enterprises is generally "40:60," while that of European and American enterprises is "an inverse 30:70," i.e., internal funds accounting for 70 percent and external for 30 percent. As their external fund dependency is less, shortages can be made up directly from stock and bond markets. Chinese enterprises are closer to Japanese ones, with the data showing that most Chinese enterprises have very little of their own funds, about 80 percent of operating and investment fund sources are external, and some enterprises are even totally dependent on external funding. As interest rates are generally more than 50 percent higher for direct than indirect financing, a widespread adoption of direct financing would be bound to sharply increase the fundraising cost of enterprise development, and thus become an obstacle to the transition of China's economy to a long-term, large-scale investment stage.

In addition, the development of direct money markets might cause a flow of funds beyond banks. In all of the fluctuations that have occurred in China's economic operations since 1984, banks have played braking and accelerating roles. While the monetary policy time-lag is generally 12-18 months in Western countries, experience shows that China's monetary policy time-lag is only 6-8 months. Our much shorter time-lag is obviously due to China's major fund circulators being subject to state bank control. Steadily increasing direct financing might also exacerbate future macroeconomic regulation and control difficulties.

The unsuitability of both direct and indirect financing shows that the trouble is certainly not in the financing mechanism per se, but rather that our national income distribution structure contains serious problems. In Japan, Taiwan, and South Korea's economic takeoffs, investment sources were generally 30-50 percent government, 30-40 percent within enterprise, and 10-20 percent individual savings. China's current state involvement is less than 10 percent, while accumulation within enterprises is insignificant, with a sizeable number of enterprises still not collecting any depreciation funds, and they beyond the central system, even to the point where the fund of depreciation funds to industrial output is 3 percent less than in 1984. In our primary distribution of national income, it is precisely enterprise distribution being without credit facilities from whose hands it flows into funds that has caused the current strange phenomena, in which material accumulation is divorced from value payment, and there are commodities but no money to pay for, and that has put the issue in the dilemma of choosing between direct and indirect financing. Therefore, as our national economy is now making the transition to a new development stage, the new economic growth pattern put in is coming up for a new and more appropriate system. This means that in the new age, we will have to speed up our pace of system reform as much as possible, in order to ensure that China's economic development enters the new age more quickly.

Analysis of Prices for 1991, Forecast for 1992

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(Text) 1. The Basic State of Prices in 1991

1. Retail Commodity Prices Rose Steadily

Our consumer goods markets have begun to recover since the last half of 1990. In the first 11 months of 1991, our consumer goods retail turnover was 740.7 billion yuan, or 13.5 percent higher than in the first 11 months of 1990. Excluding prices rise in commodities and consumer goods retail turnover increased about 10 percent, to basically return to its normal pre-1989 level. The breakdown of commodity sales was that staple and nonstaple food sales increased steadily, but not by much; appliance sales increased more, with sales of durable consumer goods such as color TVs and washing machines picking up steadily, and those of new durable consumer goods such as household air conditioners, drinking and redoubting in water pipes, and clothing sales underwent a structural change, with overall sales fluctuating and not showing a clear change. Broken down by consumer for the first 11 months of 1991, urban consumption was up 12.7 percent, rural growth purchasing rose 18.9 percent, and consumption below the county level grew 8.8 percent. This shows that our urban consumer goods

markets have entered a phase of steady growth, our rural consumer goods markets are still in a recovery stage, and our rural group purchasing has regained its rapid growth momentum.

While our consumer goods markets picked up steadily, prices remained fairly stable. Even though the state readjusted at the beginning of 1991 the planned prices of capital goods, such as coal, crude oil, petroleum products, and rolled steel, and sharply modified its selling prices of grain and cooking oil in May, prices remained basically stable overall. Retail commodity prices were 2.4 percent higher in 1991 than in 1990 for the first 11 months, and about 3 percent higher for the whole year. Our 1991 price changes can be roughly broken down into the two stages of January through April, when the monthly price increases fell gradually, and after May, when price rises began to grow larger. The breakdown of commodity price changes for the first nine months of 1991 was that the prices of stationery and recreational articles were 3.3 percent lower than in the first nine months of 1990; price rises were lower than the overall average at 1.6 percent for daily necessities, 1.5 percent for books and magazines, and 0.6 percent for building materials, and price increases were close to or clearly higher than the overall average at 2.6 percent for agricultural capital goods, 2.4 percent for food, 4.3 percent for clothing, 2.9 percent for medicine and articles of medical use, and 10.1 percent for fuels. The cost of living index was 1.9 percent higher than in 1990, with the clothing price index rising sharply to average 10 percent more than in 1990.

The differences in the above breakdown of commodity price changes reflect the varying impact on these commodities of state modifications of selling prices and specific changes in market supply and demand relations. For instance, food price rises were due above all to the impact of state modification of the selling prices of grain and cooking oil in May (with food prices for the first nine months averaging 6.1 percent more in 1991 than in 1990). In addition, the disasters that occurred in some areas caused produce prices to increase sharply, to be 5.3 percent more in the first nine months of 1991. Fuel price rises were affected directly by increases in the prices of household coal and gas in the cities. But as commodities supply and demand relations were generally eased in 1991, many commodities were still in a state of severe overstocking and supply exceeding demand, so that their prices still drifted downward to a certain extent. In the first nine months of 1991, the prices of meat, eggs, and poultry were down 2.7 percent and those of aquatic products, soap, laundry detergent, and some knitwear and textiles were also slightly lower. While expensive commodities sales clearly picked up, prices still continued to decline, falling 0.5 percent for washing machines, 0.6 percent for electric fans, 1.1 percent for cameras, 0.3 percent for radios, and more than 10 percent for black and white TVs.

2. Capital Goods Prices Increased Slowly

Driven by the pick up in our industrial output rate and the increase in our fixed assets investment, sales began to pick up in our capital goods markets in the fourth quarter of 1990. In 1991, this buying and selling increased sharply.

Our capital goods sales turnover was 24.1 percent higher for the first nine months in 1991 than in 1990, with the growth rate of our staple commodity consumption being higher than that of our resources supply, so that the surplus inventories and overstocked products that we had accumulated during our market slump gradually decreased. The dual impact of our market sales recovery and planned price increases brought a slowly rising trend to our industrial capital goods prices. Data from our materials system shows that our capital goods selling prices were 1 percent lower for January in 1991 than in 1990, and then 0.5 percent higher in July and 1.2 percent higher by October. Our capital goods prices rose 0.7 percent during the first nine months of 1991, with our monthly capital goods price index not changing much and generally being less than 1 percent except for in March. Affected by the 1990 price modifications continuing to take effect and further price modifications in 1991, our planned prices were 4.5 percent higher for the first nine months in 1991 than in 1990, and 1.3 percent higher in September than at the beginning of 1991. While market prices were 2.6 percent lower for the first nine months in 1991 than in 1990, they were 0.6 percent higher in September than at the beginning of 1991. By the fourth quarter of 1991, there was a more obvious trend of price rises for both planned and market prices.

Our commodity breakdown shows that as capital construction and technological upgrading funds have gradually taken effect, construction of key projects has been speeded up, commodity demand has increased, market sales of major capital construction materials have become brisker, and prices have generally risen. For instance, prices rose from June to October 1.3 percent for circular steel, 2.6 percent for threaded steel, and 4.4 percent for wire rod and common welded pipe, which price rises from the end of 1990 to October 1991 were 8.8 percent, 12.4 percent, and 7.9 percent, respectively, while the price of common cement increased month after month to be 17.7 percent higher by the last third of October than at the beginning of 1991. The prices of lumber, some nonferrous metals, and industrial chemicals fell steadily. From January to September 1991, prices fell 21.3 percent for aluminum, 3.2 percent for lead, 9.4 percent for caustic soda, 4.3 percent for soda ash, 3.2 percent for lumber, and 6.4 percent for coal.

3. Agricultural Sideline Product Prices Fell More Slowly

China's estimated 1991 grain output was 850 billion jin, for a bumper harvest second only to that of 1990. While we maintained an increased output of cotton, oil-bearing crops, and live hogs, so that agricultural sideline product supplies were abundant, we also had problems with procurement delays, procurement fund shortages, and peasant selling difficulties. Agricultural sideline product market prices have been falling for some years. As the State Council decided in the fall of 1990 to establish special grain reserves with protected prices, in addition to factors, such as the increase in the selling prices of grain to urban residents and the pick-up in our industrial output rate in 1991, the trend of falling agricultural sideline product prices has been slowed. In relation to the same periods in 1990, our agricultural sideline product procurement prices were down by 7.5

percent for the first quarter of 1991, 2.2 percent for the second quarter, and only 1 percent for the third quarter, with an estimated increase by the end of 1991.

The variety breakdown is that procurement prices were lower than in 1990 in the six categories of grain, bamboo and lumber, industrial paint, poultry products, silkworm cocoons and silk, and native sideline products, which had the impact of lowering overall agricultural sideline product procurement prices 5.7 percent. The 12.8 percent drop in grain prices lowered overall prices 4.6 percent, while the 6.1 percent drop in live hog procurement prices lowered overall prices 0.9 percent. The procurement price drop was larger for wool, with the procurement price being down 10 percent for sheep wool, 52.5 percent for goat wool, and 35.1 percent for cashmere. Cash crop procurement prices continued to rise, with the 6.2 percent rise in the procurement prices of cash crops in the first half of 1992 raising overall prices 1.1 percent. This included increases of 36.1 percent for cotton and 6.8 percent for tobacco leaf. Affected by market supply and demand, procurement prices were up 33.2 percent for apples from the north and 20.4 percent for bananas from the south, so that the procurement prices for fresh fruit throughout China were generally higher. A representative survey of food prices at 245 country fairs by the Ministry of Commerce has found that the changes were roughly the same for the retail and procurement prices of agricultural sideline products on country fair trade markets.

II. The Features of Price Changes in 1991

The price changes on China's markets in 1991 were characterized mainly as follows:

1. Market prices were relatively stable while industrial output and commodity sales both picked up together. In 1991, while our industrial growth rate was 14 percent, and our retail commodity turnover increased 13.2 percent, our retail commodity prices remained relatively stable, with no major fluctuation. In past years, particularly after reform, faster socio-economic development, more rapid industrial growth in particular, and sharp increases in retail commodity turnover, were always accompanied by clear price rises. After 1989, a steady drop in China's price rises occurred along with a slower or even negative industrial growth rate and a sharp drop in commodity sales. But in 1991, while our industrial output and fixed assets investment grew steadily, our market sales picked up steadily, and our overall economic development gradually entered a normal state, our market prices maintained a relatively low rate of increase.

2. Price rises increased, being clearly higher in the last half than in the first half of 1991. While prices remained basically stable overall in 1991, their development and change trend was clearly different from the preceding two years. While the price change trend of the preceding two years was basically a monthly decrease in rises, price rises began to increase monthly in May 1991, so that prices were clearly higher in the last half than in the first half of 1991.

3. Planned prices clearly increased more than market prices. In 1991, the state seized the favorable opportunity, when

market supply and demand relations were eased and inflation had been curbed, to take a number of appropriate price modification steps, which brought large increases to the prices of some planned and controlled commodities. It is estimated that the overall modification by about 13 billion yuan of the prices of capital goods, such as coal, and infrastructures, affected overall 1991 prices by 1-2 percent, which impact was 2-3 percent from the readjustment of the selling prices of grain and cooking oil, and about 0.5 percent from the planned modification in all areas of certain locally controlled commodity prices and service fees. While these price modifications alone should have pushed up overall prices 4-5 percent, our overall prices in 1991 actually increased only about 3 percent. A key reason for this was that the relative easing of supply and demand relations drove the prices of deregulated commodities down, instead of the automatic price increases, so that market prices were lower in 1991 than in 1990. In our retail commodity price index, country fair trade prices were 1.03 percent lower for the first nine months in 1991 than in 1990, while our state-owned commodity price index was up 5.3 percent. In our capital goods price index, market prices were down 2.6 percent, while planned prices were up 4.5 percent.

4. Prices increased more in the cities than in rural areas. While prices increased less in the cities than in rural areas in 1990, this changed in 1991, when urban price rises were clearly higher than rural ones, and the cost of living for staff members and workers in the 35 large and medium-sized cities rose sharply. Comparing the first 9 months of 1990 and 1991, retail commodity prices were 4.1 percent higher in cities and towns but only 1.7 percent higher in rural areas, while the cost of living for staff members and workers was up 8 percent in the 35 large and medium-sized cities, and more than 18 percent in large cities, such as Beijing, Tianjin, and Shanghai. The major reasons for this were as follows: 1) large readjustments of the selling prices of grain, cooking oil, and household fuel in cities and towns in 1991; 2) large rises in the prices of fresh vegetables in large and medium-sized cities, averaging 11.2 percent higher for the first 10 months in 1991 than in 1990; 3) a steady increase in urban service charges, which were 20.7 percent higher for the first 10 months in 1991 than in 1990; 4) a fast recovery in urban consumer goods markets (including social group consumption), which drove up prices more in cities than in rural areas.

5. The prices of agricultural sideline products rose less than those of manufactured consumer goods in rural areas and agricultural capital goods, which further increased the price scissors between industrial goods and agricultural products. The phenomenon of production costs increasing faster than procurement prices for staple agricultural products, such as grain, had already appeared some years ago. Statistics for 1982 to 1989 show that grain production costs increased an average of 11 percent a year, while contracted procurement prices rose an average of only 5 percent a year, or less than one-half of the cost increases. But the large increase in market grain prices offset to a certain extent this relative drop in peasant grain-cultivation profits. In 1990, our agricultural sideline product procurement price index decreased for the first time since we began to reform and

open up to the outside world in 1978, to be 97.4 percent that of 1989. While the trend of lower procurement prices for agricultural sideline products slowed in 1991, it is an established fact that the 1991 index was lower, while the prices of manufactured consumer goods in rural areas and agricultural capital goods continued to increase slowly. This trend of relative price changes further increased the price scissors between industrial goods and agricultural products.

6. The dual-track price differences for capital goods generally shrank, bringing some relative improvement to the internal price structure. Limited by state planned price modifications and the market climate, producer prices were higher for the first half in 1991 than in 1990 by 14.2 percent for mined industrial products, 12.4 percent for raw materials, and 1.9 percent for manufactured goods, bringing some relative improvement to the internal capital goods price structure. Meanwhile, the combined impact of planned price increases and market price decreases further shrank the dual-track planned and beyond-plan price differences from those in 1990, so that the overall price differential shrank from 30 percent in 1990 to 20 percent in 1991. This included a reduction from 1990 to 1991 in the difference between planned and beyond-plan prices from 39.8 percent to 18.9 percent for pig iron, from 46.8 percent to 16.3 percent for wire rod, and from 99.4 percent to 35.4 percent for sheet steel. For some materials that had long been in sharp demand and short supply in some areas, there appeared a phenomenon of planned prices being higher than market prices.

III. An Analysis of the Factors That Caused Relative Price Stability in 1991

Our overall relative price stability in 1991 was achieved while our industrial growth rate returned to normal and our retail commodity turnover clearly increased, with prices being clearly lower than the price-control index set in the state plan at the beginning of the year and the predictions of the concerned parties. This shows that the policy steps we took in the last two years to control inflation have achieved clear results, that our cost- and demand-driven price-rise forces have been curbed temporarily, that we have successfully avoided the possible pitfall of improvement and rectification causing simultaneous economic stagnation and inflation, and that there has been a great change over the past in the operating forces of China's market prices. This has presented China's price-controllers with the following new thought-provoking issues:

1. While China's economic operating forces have already undergone great changes since we began to reform, as far as the predictions of annual price rises and the setting of planned, control goals are concerned, all of these changes have basically relied mainly on the lagging impact of the preceding year's price changes on the current year's prices, the force of new planned price modifications, and the effect of spontaneous market price-rise factors. This way of forecasting prices and setting control targets by simply collating several factors is not only unsuited to the changes that have occurred in our price-formation and -change forces, as well as to our actual economic operations, but also has always been

a troublesome problem in determining the impact of spontaneous market price-rise factors. In particular, the decrease in directive planning and increase in market regulation has shifted many commodity prices from state-planned prices to market-formed prices. Even though prices are still state-set, this is in name only in many cases. This change has objectively strengthened the links between market supply and demand relations and price changes, while increasingly showing the decisive impact of overall balanced relations on overall price changes. A conspicuous manifestation of this is that a planned price-modification plan put into effect under varying supply and demand conditions, might have the impact of either raising or lowering overall prices.

2. Our system conversion has already shifted our economic growth from its former single resources-restraint to the dual restraints of resources and market demand. Our credit and demand relations, as well as their impact on overall prices, have also become very complex. In the setting of China's price control index over the years, a crucial variable that has had to be considered is the preceding year's bank credit. In 1990, our new loans reached 275 billion yuan, growing far more than in past years. This is precisely why many comrades have commented that our huge price-rise pressures in 1991 mean that we must be on guard against a new round of inflation. It should be pointed out that while increased credit might simultaneously increase both final and intermediate demand, it might also overstimulate one aspect or link of demand, which could make a very big difference in the short-term effectiveness of price policy. As to our macroeconomic policy operations during the period of improvement and rectification, after the market slump that occurred in the last half of 1989, the various steps that we took to stimulate markets, which were focused mostly on monetary and credit policy, roughly underwent three stages. In the first stage, our lack of understanding of the changes that occurred in market supply and demand relations through tightening, the lack of force of our regulation measures, and the clear time-lag of our policy implementation, delayed to a certain extent our resolution of overall conflicts. After the sustained adverse effect of inadequate immediate market demand on overall economic operations was fully revealed, the state gradually increased the force of its market-stimulation measures and began to ease its monetary and credit policies, so that credit was increased 22.6 percent in 1990, and was almost 200 billion yuan higher again by the end of September 1991 than at the beginning of the year. From a credit perspective alone, while it could even be said that our monetary and credit policies have been inflationary for the last two years, which policies were bound to have the effect of driving up prices, the fact that prices have remained relatively stable for two consecutive years shows that this certainly did not occur. While the reason for this was that the easing of credit in the second stage was focused mainly on the production and circulation links, which caused a one-time increase in intermediate demand through a large increase in circulating fund loans, as final demand certainly did not increase correspondingly, much of the newly increased circulating funds ended up in overstocked finished products. In 1991, the focus of increased credit was gradually shifted to final demand, and

newly increased fixed assets investments steadily took effect, so that consumer goods market demand also clearly picked up. While the impact of this increased demand on overall prices began to show up, as the increased circulating fund loans in 1990 had brought a recovery to our industrial output growth rate, and had added to the product inventories in the production and circulation links, there was still no clear improvement in 1991 in the state of production along with overstocking in the industrial sector. Thus, while this had a certain adverse impact on enterprise and overall economic operations, it also provided a certain amount of favorable conditions for relative overall price stability in 1991.

3. As to the final demand link, fixed assets investment and individual consumption are the two key determining factors in price change. As the state gradually increased the force of its market-stimulation policy, our fixed assets investment clearly increased in 1991, being 21.8 percent more for the first 9 months in 1991 than in 1990, and far higher than the economic growth rate for the same period. In addition, while the large amount of circulating fund loans supported industrial production growth, which brought a clear recovery to market sales of key industrial capital goods, and clearly increased the prices of capital construction materials and investment products, the excessive inventories of key industrial capital goods objectively provided a definite leeway for the impact of this investment demand, so that it certainly did not result in an excessive increase in the overall prices of capital goods. As to individual consumption, since the soft markets of previous years had somewhat matured individual market purchasing and consumer mentality, none of the price-modification steps taken by the state in 1991 caused large market fluctuations. As to urban individual consumption, since basic consumer market supplies were fairly abundant, the existing individual supplies of various durable consumer goods were already basically saturated and it was not yet the time to discard and replace them, and it was hard for a new consumer fever to evolve very rapidly in the short term due to a variety of limitations, urban individual savings continued to grow at a high rate despite the reductions in bank interest rates. And the slow growth of rural individual consumption was due mainly to the continued drop in the procurement and market prices of agricultural sideline products, and the clear decrease in the growth of peasant income.

In addition, it particularly needs to be pointed out that our 1991 overall relative price stability was achieved at the cost of low enterprise efficiency. The successive years of rising enterprise production costs, while product prices were subject to the dual limitations of state planned prices and market supply and demand relations, often left enterprises unable to make ends meet and with large losses. Meanwhile, the large amount of price subsidies that the state had to pay, put huge pressure on its balance of revenue and expenditure, and made it hard to eliminate its huge fiscal deficits. This left us maintaining overall price stability, but facing deferred price-rise pressures.

IV. Price Reform and Modification Steps Taken in 1991, and an Evaluation of Their Effectiveness

In 1991, along with consolidating our improvement and rectification successes, vigorously adjusting our economic structure, and continuing to be guided by the policy of deepening of reform, we took a number of reform and modification steps in the field of market circulation and pricing. These steps were mainly as follows: as to the circulation of agricultural sideline products, manufactured goods for everyday use, and capital goods, we enhanced our market organization and development, particularly by beginning to set up various types of standardized wholesale markets; in order to stimulate markets and circulation, the State Council took a one-time step to reduce the prices of overstocked commodities; we took a number of price modification steps within certain limits, which advanced the pace of price structural adjustment; we merged the dual-track prices of some capital goods, continued to expand the scope of guidance pricing and market regulation, and speeded up the further conversion of our price-formation mechanism. We will now briefly explain and evaluate the direct impact on price changes of these key reform steps, as well as their effectiveness.

1. While reducing prices to deal with overstocked commodities played a certain positive role in stabilizing prices, and speeded up our commodity turnover rate for a time, it certainly did not resolve the operating force-problem in our blocked commodity circulation. At the beginning of 1991, our commodity inventories were overstocked by more than 100 billion yuan. In order to reduce these commodity inventories, invigorate funds, and speed up circulation, the State Council decided on 1 April 1991 to focus its efforts on reducing the prices of a number of long-overstocked commodities, with commodity price reductions reaching 20 billion yuan. While these steps achieved a certain amount of results, mainly by 1, invigorating markets and reducing commodity inventories, and 2, playing a positive role in stabilizing individual consumer mentality and curbing prices, the limited policy effectiveness of such temporary steps was very clear. As the problems still existed of our industrial production structure not having been correspondingly adjusted, our market supply and demand being out of proportion, and our production not meeting our marketing needs, we experienced a very glaring issue of trying to deal with these problems while continuing to produce and overstock, which caused a further increase in our commodity inventories by the fourth quarter of 1991. Resolving these problems of production and marketing conflicts and unsuitable product mix involves the following three operating-force aspects: 1) The consumer goods that are already subject to market regulation must be truly deregulated, by giving enterprises the decisionmaking power to set and adjust prices promptly according to supply and demand, so that flexible price-formation mechanisms can be established. 2) Enterprises must be made fully responsible for both their profits and losses, by being allowed to use the profits they earn when commodity values are high to make up the losses they sustain when prices are low, so that they will have a flexible price-setting financial basis. 3) We must establish relatively flexible economic structural adjustment

forces, in order to roughly synchronize production, supply, and demand changes. Obviously, these problems certainly cannot be solved simply by cutting prices to reduce inventories.

2. Modifying the selling prices of grain and cooking oil in the cities helped to rationalize the prices of agricultural sideline products, reduced financial subsidies, and was a one-time successful reform attempt. Ever since we began to reform and open up to the outside world, our disproportionate circulation prices with a steadily increasing burden of financial subsidies has been a very troublesome problem. In 1991, the state seized the favorable opportunity of eased supply and demand conflicts, by taking prompt steps to readjust the selling prices of grain and cooking oil to urban residents, which raised the selling price of food 66 percent, increased the price of cooking oil by 166 percent, and correspondingly raised the prices of finished products dependent on grain and cooking oil. While this selling price modification for grain and cooking oil was large in scope and broad in scale, the reform step did not disturb consumer buying mentality, arouse panic about price rises, or cause large fluctuations in the market prices of grain and cooking oil. The modification of the selling prices of grain and cooking oil reduced the food procurement and marketing price difference per 500 grams from 0.15 yuan to 0.05 yuan, and evened up the procurement and marketing prices of cooking oil, which reduced state grain subsidies 33 percent and cooking oil subsidies 68 percent (with adjusted figures showing that this could reduce state subsidies almost 15 billion yuan a year). It could be said that this readjustment of the selling prices of grain and cooking oil was a successful reform attempt, which provided experience for further rationalization of price relations in the field of circulation.

3. While we took new steps to modify the prices of basic industrial capital goods, their price structure remains unable to meet our economic growth and system reform needs. A glaring irrationality in China's pricing system is that the planned prices of basic products and infrastructures have long been too low. Resolving the too low planned prices of primary manufactured goods has always been a key price reform problem. In 1991, we fine-tuned the prices of primary manufactured goods, by taking a number of price-modification steps. The major ones were as follows: 1) While rectifying the price chaos in iron and steel series products, eliminating all temporary prices, and enhancing our oversight of "guaranteed quantity but not quality," we readjusted at the beginning of 1991 the central-distribution producer prices of items, such as iron ore, ferroalloys, and billets, increasing them from 17-26 percent. We put into effect two categories of rolled steel producer prices, category one being used jointly for the eight major iron and steel enterprises, in which prices were about the same as existing producer prices, and category two for other iron and steel enterprises, in which prices went up a certain extent. 2) At the beginning of 1991, we raised the planned prices of crude oil, with the price of fixed-price crude going up 19.8 percent, and that of high-priced crude increasing about 7 percent. 3) Faced with having raised the price of crude three years in a row, not having readjusted refined oil prices, and most fixed-price oil refineries sustaining losses, we readjusted the

producer price of refined oil in the first half of 1991. This included price increases of 16 percent for gasoline, 17-22 percent for kerosene, 37 percent for nonagricultural diesel oil, and varying amounts for high-price oil. 4) We continued to use the method of higher prices for increased output of centrally distributed coal, with average price increases of 17 percent in 1991. 5) In the first half of 1991, we raised prices 7.4 percent for railway freight transport and 24.62 percent for pipeline transport. While this fine-tuning of primary industrial capital goods prices played a certain positive role in resolving conflicts due to too low planned prices, its impact was limited to reducing losses and partially offsetting rising costs, so that it certainly did not basically change the state of low prices, tiny profits, steadily falling profit margins, and even losses in the primary manufactured goods industry. Thus, in order to harmonize our pricing policy for the primary manufactured goods industry with our national industrial policy, we not only are faced with heavy tasks that will require long-term hard work, but also will have to exert more price reform and modification force as conditions permit.

4. While we made a certain amount of progress in merging the planned and beyond-plan prices of some capital goods, and in reorganizing our dual-track pricing system, this also caused certain new problems and conflicts. Dual-track pricing has always had both pros and cons. As the disadvantages of the dual-track pricing system had aroused widespread attention among all parties in recent years, it was undoubtedly the correct choice to merge prices actively and safely when economic conditions were ripe. In 1991, the state merged the prices of centrally distributed cement, tinplate, and cold-rolled silicon steel sheet. As to the macroeconomic climate for merging prices, the previous years of improvement and rectification had brought a clear improvement to China's market supply and demand, by reducing capital goods demand, raising production, increasing reserves, bringing more supply than demand to some capital goods, and generally reducing dual-track price differences, which had provided good conditions for reorganizing dual-track pricing and merging prices. Thus, while 1991 was an appropriate time to choose to merge dual-track prices, our price-merger methods still clearly lacked certain improvements, which caused certain problems in our immediate economic activities. These problems were particularly glaring in our merging of cement prices.

On 12 March 1991, the concerned state sectors jointly issued a "Circular on Uniform Planned and Beyond-Plan Cement Producer Prices for Cement Enterprises," which merged the prices of cement for central-distribution cement enterprises on 1 April 1991, and put into effect uniform planned and beyond-plan producer prices. This actually meant that cement from central-distribution cement plants was transferred from dual-track pricing through planning and markets to single-track planned pricing. While this method was aimed at enhancing macroeconomic control, standardizing the price-formation mechanism, optimizing enterprise structures, and promoting the sound growth of the cement industry, our experience of the last six months or so shows that not only was our original intention of the

merger far from being achieved, but a series of new problems was touched off as follows: 1) As China's cement production and consumption are both very decentralized, cement is a very competitive product. In fact, during the market slump of recent years, central-distribution cement plants had used product quality and pricing measures to compete with many small cement plants, which had forced some small ones into shutdowns and bankruptcy. But the merging of prices that brought uniform fixed prices to central-distribution cement plants, tied the hands of large cement plants and weakened their ability to compete. 2) As to market supply and demand, our overall supply and demand of cement is roughly balanced, with new cement resources being larger than domestic demand in recent years. But as the newly set uniform prices were too high and did not reflect specific supply and demand conditions very well, the higher planned prices did not take effect, with the uniform prices being enforced to varying degrees in various places and many enterprises voluntarily reducing their selling prices, which left the price merger meaningless. 3) Too small seasonal price differences, no clear provisions for wholesale price differences, and the operating difficulties of the commodities management sector that made it hard for it to play its role as the major capital goods circulation channel, faced many large- and medium-sized state-owned cement plants and circulation enterprises with the danger of a loss of market share. Moreover, as cement is a competitive product, the deregulation of seasonal and wholesale price differences could actually have occurred naturally. Our experience in merging the prices of some capital goods in 1991 has taught us the following noteworthy price-merger lessons: 1) as to competitive products, such as cement, the merger direction should be a gradual transition toward a market track, with both production and circulation enterprises using market-regulated prices; 2) even as to those products that are suited to being merged to planned prices, there should be a scientific basis for the setting of planned price levels, as well as for quality, seasonal, and link price differences, which should be promptly revised as conditions change, in order to prevent an adverse impact on immediate economic operations.

5. While we appropriately expanded the scope of guidance and market-regulated prices, which further converted our price-formation mechanism, we still need to exert a lot of effort to conscientiously return commodity price-setting authority to enterprises. In 1991, based on changed economic conditions and the need to revamp large- and medium-sized enterprises, we appropriately sorted out certain temporary administrative measures that we had adopted generally throughout China during the period of improvement and rectification, and reduced the scope of local price rises subject to special State Council approval. Moreover, all areas continued to deregulate some commodity prices. But while the uniform deregulation throughout China of formerly state-set retail prices for sugar and cigarettes and formerly state-guidance prices for enamel washbasins and cups has further enhanced the flexibility of our price-formation mechanism, and has brought some improvement to our indirect price-regulation and control system, we still have a glaring problem of truly returning to

enterprises the price-setting authority for commodities that the state has already clearly deregulated.

V. Market Price Trends and Policy Recommendations for 1992

Our experience in recent years shows that as market-regulated prices are already playing the dominant role in our price-formation mechanism, while price changes now depend mainly on the overall balance between supply and demand, changes in overall relations remain directly subject to state macroeconomic policy. In 1992, our improvement and rectification task will be over, our overall national economy will shift to a normal period of growth and reform, and our economic tasks will be to further deepen reform, open up more to the outside world, consolidate and expand our improvement and rectification successes, and vigorously speed up structural adjustment and efficiency improvement. Thus, the state has clearly set our macroeconomic policy orientations as adhering to overall control and maintaining stable economic growth, and has made plans for a moderate 1992 GNP growth rate of 5.5 percent. We think that these 1992 economic growth plans and macroeconomic policy orientations are basically moderate. If these macroeconomic policy intentions are realized and implemented well in our actual economic operations, there will not be a basic reversal in 1992 of our rough overall balance between supply and demand, and our prices will basically remain stable while rising somewhat, with some commodity prices rising while others fall.

Premised on these clear macroeconomic policy directions, the extent of our 1992 overall price increases will depend on the scope of our price reform and the comparative force of the various existing favorable and unfavorable factors in our actual economic operations. While some areas suffered from natural disasters and reduced output in 1991, we still reaped good agricultural harvests, maintained a high industrial output growth rate, and clearly increased our effective supplies, which abundance of goods inventories and reserves provided the material basis for price stability. Moreover, we maintained a good foreign trade growth momentum and sharply increased our foreign exchange balance in 1991, which correspondingly enhanced our capability to use the international market to stabilize our domestic market prices. Of course, our immediate economic operations still contain certain factors that drive price rises, some of which have existed for many years. For instance, our income distribution is too slanted to the individual, there is a conflict between increased individual spending capacity and a too narrow field of consumption with inadequate commodity diversification, and our economic and price structures are irrational. Our experience in recent years shows that as long as our macroeconomic policy is relatively stable, these factors will not be too great of a shock to our market prices in the short term. Our immediate 1992 price-rise pressures come mainly from the existing problems in our current economic operations. As to stimulating markets, while our credit has exceeded the planned targets for two consecutive years, our enterprise production cost increases and efficiency decreases have still not clearly improved, and our speed and efficiency recoveries are unsynchronized, which have produced many unfavorable

factors to price stability. Not only did these unfavorable factors already begin to show up in the last half of 1991, but their time-lag effect is predicted to be even clearer in 1992. A summary of these factors leads to the prediction that while our price increases will be higher in 1992 than they were in 1991, they will not exceed the planned control target of 6 percent.

The general trend of price changes on commodity markets in 1992 breaks down as follows: Market sales of manufactured consumer goods for daily use are increasing steadily and becoming more diversified. As there is little flexibility in the consumption of ordinary commodities and daily necessities, some are being overstocked, while consumer demand is increasing slowly and price increases are decreasing steadily. While market sales of expensive consumer goods are picking up further, certain new changes are occurring in the production and consumption mixes of such goods, and the prices of some hot-sellers are increasing steadily, it is estimated that a new consumer fad for expensive consumer goods has not yet occurred. Supplies of agricultural sideline products are abundant, and there are surplus inventories of staple foods, such as grain, cooking oil, and sugar, which will basically meet steadily growing consumer demand. While the "food-basket" project has been remarkably successful and produce supplies throughout China are continuing to improve, the impact of the selling price modifications of staple agricultural products, such as grain, as well as the response of prices in country fair trade, are keeping agricultural sideline product prices stable with some increase. While capital goods market demand is further increasing, buying and selling is becoming brisker, and overall capital goods supply and demand relations are roughly balanced, structural problems are becoming more glaring. While prices are increasing somewhat for hot-selling building materials and construction-use capital goods, supply and demand relations are easing and prices are stable for industrial chemicals, rubber, and some nonferrous metals. It is estimated that market sales are growing faster and prices are rising more for capital goods than for consumer goods.

Based on this overall assessment of our 1992 economic conditions, we recommend seizing the favorable time, when market supply and demand relations are relatively eased, to appropriately expand reform while maintaining price stability. We should proceed from the actual operations of China's current economic system to push ahead with both planned and market-oriented price reform and speed up the conversion of our price-formation mechanism, so that our pricing and management systems will be better suited to the needs of economic structural adjustment and deepened reform.

1. Our current planned price control should remain focused mainly on fields, such as power, transportation, and some raw materials and staple foods, most of which industries are targets of key support and development by state industrial policy. Despite repeated price readjustments in these industries, the impact of too low planned prices on self-accumulation and development has certainly not been basically reversed. In our existing system, price policy is an

indispensable support to state industrial policy. We should take small, steady, driving steps to rationalize prices in these industries as quickly as possible. As to coal, oil, and railway transport, we should decide promptly not only to modify prices, but also to appropriately enlarge the scope of price modification. This not only will help greatly to enhance the growth capability and speed up the economic structural adjustment of these sectors, but also will contribute to an improvement of state revenues. Modification of the selling price of grain should be carried out in synchronization with reduction of the supply base for fixed-price grain and rationalization of our grain circulation system.

2. State planned price-setting criteria and key reference bases must be suitably and correspondingly adjusted to the new situation of our development of a planned commodity economy. In our planned modifications of the prices of some raw materials and a few consumer goods in the last two years, planned price-modifications often did not achieve the desired results, with actual price changes being smaller than the planned price modifications, and even cases of planned prices being higher than market prices for some commodities. The major reason for this was that while our current commodity prices were directly restricted by supply and demand relations, we continued to use the old cost-profit method to set commodity prices, which made it hard to avoid planned price-modification mistakes. Thus, price-modification decisions by the concerned state sectors must be based mainly on considerations of market supply and demand relations, so that our planned pricing system will be suited to our current economic operating forces, and be able to play a positive role in promoting the sustained, steady, and coordinated growth of our national economy.

3. Many of our already deregulated commodity prices are still heavily affected by administrative interference in the production and circulation links. In the circulation link in particular, very little independent price-setting authority has actually been devolved to large- and medium-sized state-owned circulation enterprises. This was due in some cases to the interception of price-setting jurisdiction at each level in the former years of expanded market regulation, and in others to intensified administrative interference for a time during improvement and rectification. This improper administrative interference kept these commodity prices from flexibly reflecting changes in market supply and demand relations, while causing much conflict and friction in commodity circulation, and keeping the production and operations of large- and medium-sized state-owned enterprises from being vigorous and competitive. We should conscientiously devolve to enterprises as quickly as possible the price-setting authority for commodities that have already been deregulated, in order to truly bring the normal impact of market regulation into full play.

4. We must endeavor to enhance our market system and organization. Deregulating prices alone certainly cannot form good market pricing mechanisms, which can be seen in the direct link between our previous years of sharp market price fluctuations and our poor market organization and backward business methods. We made valuable attempts to enhance our market organization during improvement and

rectification, such as strengthening the wholesale market focus of our agricultural product market system. As these standard operated agricultural product wholesale markets practiced open transactions and equal competition, which formed prices that truly reflected market supply and demand relations, they played a very positive role in price formation on agricultural sideline product markets in certain regions and even throughout the country. We should sum up these experiences to further enhance our market organization. From country fair trade markets to all types of agricultural sideline product, manufactured consumer goods, and industrial capital goods wholesale markets, including the exchanges that were set up in the last two years, we must endeavor to improve our market organization and standardization, enhance our market "automatic stabilization" capability, and strive to create a good organizational foundation for the normal operation of market forces.

5. We must revise our price-control list, and further devolve and deregulate some price-control jurisdiction. Our current price-control list was drawn up in 1980. In the last five years, developing economic circumstances and improved living standards have brought great objective changes. Some commodities have been changed from daily necessities to nondaily necessities, and the prices of other have been deregulated, while the prices of their components are still controlled. Thus, we should correspondingly revise our current price-control catalog, by further reducing the scope of state set-price commodities, so that we can gradually realize during the Eighth Five-Year Plan the aim of keeping the prices of the few key commodities and labor that are of importance to the national economy and the people's livelihood under state control, while freeing up the prices of ordinary commodities and labor to market regulation.

Problems With Current Economic Reform, Development

92CE04614 *Bringing GUANLI SHIDU
[MANAGEMENT WORK] in Chinese*
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[Article by State Statistics Bureau's Qiu Xiaohua (6726-2556 3478) and Zheng Jingping (6774-8079 1627). Editor: Jiang Dingsheng (3592 2639 1932). "Main Problems in China's Current Reform and Development"]

[Text] *Editor's Note:* Now that the task of improvement and rectification of the national economy has been essentially completed, Chinese economic reform and development is entering a new stage. At this point, it becomes essential that we correctly understand the important problems that economic reform and development are facing, objectively analyze China's present economic situation, and scientifically forecast trends in Chinese economic development. This publication here specially publishes a group of relevant articles. The authors of the articles from various perspectives and in various respects each air their own views concerning the problems mentioned above and propose extremely valuable suggestions about economic reform measures and macroeconomic policies for China to adopt in the future.

In thirteen years of reform, China's national economic and social development have achieved world renowned success, with average annual economic growth reaching 8.7 percent (here and below 1991 figures are estimates or preliminary figures) and becoming one of the few rapidly developing countries and regions in the world for this period. People's living standards improved greatly and the national economy clearly got stronger. It could be said that if there had not been reform and opening up, there could not have been today's social prosperity. But in advancing we also encountered this or that problem, the most prominent being rather great economic fluctuation producing obvious inflation. In three years of improvement and rectification, we have achieved remarkable success and some surface problems have been alleviated, but deep problems in economic development still have not been resolved and reform and development still face a great many difficulties.

1. Major Problems Presently Facing China's Economic Development

(1) Income Distribution System Still Unreasonable

1. The share of citizen income in the gross domestic product (GDP) has risen too vigorously, but the cells of the national economy—enterprises—have by no means been sufficiently strengthened and are not vigorous enough.

Table 1

Year	(Percentage)		
	Citizen Income	Enterprise Income	State Income
1978	25.1	15.1	31.6
1984	30.1	19.5	20.9
1985	29.7	20.0	20.9
1990	41.7	21.8	14.5
1991	46.0	14.9	14.3

Table 1 shows the share of the final income of the state, enterprises, and individuals in the GDP for a few important years from 1978 through 1991. It can be seen from the figures in the table that in the thirteen years enterprise income's share of the GDP has risen 5.8 percentage points, not a great deal. The share of GDP of citizen income and state income has changed dramatically. One has increased vigorously, rising about 12 percentage points in thirteen years, and one has dropped abruptly, falling 17.3 percentage points in thirteen years.

The decline in the share of state income is directly related to the reform of the previous period giving priority to relinquishing authority and profits. According to preliminary Ministry of Finance estimates, in the ten years from 1981 through 1990, the total net profit relinquished to industrial enterprises from state revenues was 31 billion yuan. These measures are necessary if enterprises are to be enlivened. But they also give rise to two problems. The first is that state income's share in the GDP declined too much, to the point that rather serious difficulties occurred in the rapid growth

of financial expenditures not appropriate to the financial functions of a socialist state. In the last thirteen years, with the exception of 1985, finances have been in the red. From 1979 through 1991, the accumulated fiscal deficit was in excess of 100 billion yuan. If domestic and foreign debt, what the treasury should have allocated and did not allocate, and potential enterprise losses are added, the actual deficit is even larger. The second problem is that the portion of state income relinquished to enterprises by no means actually stayed in the enterprises to be used for production, but through big and small "funnels" it leaked into individuals' hands and reserve strength was seriously inadequate. One of the "funnels" is enterprise retained profits. Most of it flows into the welfare fund and the awards fund. According to a follow-up investigation of 800 large- and medium-sized enterprises, the ratio of that year's enterprise retained profits expended on such things as staff welfare and awards to that used for production went from 47.8/52.2 in 1987 to 62.8/37.2 in 1990, just the opposite of the 4/6 ratio stipulated by the state. The inflation of welfare funds in this is especially pronounced. In the 1990 whole people's independent accounting of industrial enterprises, various types of welfare expenditures were equal to 94.6 percent of the profits realized by the enterprises. The second "funnel," the enterprise contracting system, causes some profits to flow to individuals. Enterprise contract and agreement signings often are conducted between local governments (or ministries and commissions) and subordinate enterprises. Local governments, to reduce what they hand over to upper echelon treasuries, often want to provide preferential treatment to their subordinate enterprises, such as lowering contract indicators or expanding the ratio of retained profits beyond contract indicators and increasing enterprise retained profits. Conversely, localities (or departments) also call on enterprises to "volunteer" to contribute to the support of some local (or departmental) causes and projects. Some of these contributions are figured in local (or departmental) extra-budgetary income. Another portion is transferred in various forms into the hands of other departments and individuals. Financial relations between enterprises and local governments are not clear and enterprise profits often are eroded by undetermined factors. This point is fully attested to by the ever stronger reaction of the enterprise sector to the "three disorders." The third "funnel" is high interest on money raised, devouring large amounts of enterprise profits. Some enterprises, when funds are tight, use high interest rates to "raise funds" from the staff of their unit, with an annual interest rate much higher than saving deposit interest rates, in a few cases even reaching 50 percent. Some enterprises even use "raising funds" as an excuse to intentionally raise interest rates to seek "funnel" for the staff. In addition, some localities engage in trial enterprise stock systems and because they do not comply with relevant laws and regulations, there is a tendency for stock "bubbles" to be too high.

2. The coexistence of the unfair situations of a growing tendency to egalitarianism in citizen income distribution and the great disparity in income.

alone could reach as much as 26 billion yuan, the equal to 5 percent of the 1990 state revenue income. No wonder some fiercely wealthy people say, "If you are considering getting rich, partake of taxes."

Based on income disparities between units and occupations, it would appear that although there are disparities produced by such reasonable factors as actual labor achievement and the amount of work, a considerable portion of high occupational or enterprise income has nothing to do with their own management. It is related either to the environment that they are in (such as a great grade income differential or seriously distorted prices), or to the department's privileges, or to the department's daring to defy the law. According to statistics, from 1985 through 1990, in just a general examination of tax revenue, property, and prices, various types of violations of discipline uncovered came to 66.4 billion yuan, 13.28 billion yuan a year. Sixty to seventy percent of that was from accountants violating the law and filling out the books in an underhanded manner.

(2) The Irrational Economic Structure Still Has Not Been Changed

1. Transportation, communications, and energy (especially electricity) still are "bottleneck" industries. In recent years, with improvement and rectification the excessively rapid growth of the processing industries has been checked, and the restriction of the transportation and energy industries "bottlenecks" has been somewhat relieved. But because the production capability of the processing industries is essentially in the predicament of "stopped production or half stopped production," they still have a rather clear delaying effect. The contradiction of inadequate basic industry is still rather pronounced. Whether measured by railroad and highway density or merchandise transfer volume per kilometer operated, China is far behind the developed countries. In 1990 China's railroads' merchandise transfer volume per kilometer operated was 19.9 million kilometer

tons and its passenger transfer volume per kilometer operated was 4.9 million passenger kilometers. But in 1988 the volume of merchandise transfer per kilometer of railroad operated overseas was: The United States, 4.31 million kilometer tons, India 2.86 million kilometer tons, West Germany 1.83 million kilometer tons, and Japan, 1.16 million kilometer tons. The load density of some key sectors of railroads is even higher. The vast rural transportation and post and telecommunications relatively speaking is even less. The tight passenger transportation situation is even more pronounced. Such difficulties in travelling is rarely seen in other countries.

As regards energy production, in one respect, the installed industrial ratio is still rather low, only about 9 percent, five percentage points lower than in 1978. In another respect, the structure also is not altogether reasonable. In recent years, although it can be said that the supply and demand situation for coal has changed somewhat and supply temporarily exceeds demand, the supply of electricity and oil still is extremely tight. The energy problem is even more evident, especially in the vast rural and remote regions. Presently the difficulty of transferring the rural labor force and the difficulty of transferring the durable consumer goods that the urban areas are essentially saturated with, in addition to funding problems, are mainly caused by the "bottleneck" of basic industries.

2. Regional structures tend toward sameness. Driven by profit mechanisms, the present tendency toward sameness in China's regional economic structures is serious and unchecked duplicate development of processing industries is rather pervasive. As a result, there is no way to accomplish specialized division of labor and society-wide production returns.

3. The structure of consumer goods production is seriously out of balance with the consumption structure, creating an excessive production capacity. For example, some sectors use less than 40 percent of their production capacity (see Table 4).

Table 4 1990 Utilization Rate of Some Products' Production Capacity (Percentage)

Beer	64.3	Bicycles	73.5
Cigarettes	60.6	Refrigerators	40.1
Tires	60.1	Electric Fans	77.0
Cement	78.0	Air Conditioners	24.1
Processed Aluminum Products	78.1	Washing Machines	40.5
Tractors	70.1	Vacuum Cleaners	17.3
Small Tractors	50.0	Black/White Televisions	63.0
Cars	57.8	Color Televisions	45.1
Sewing Machines	68.6	Recorders	65.6

(3) The Contradiction of the Decline in Economic Returns Is Extremely Pronounced

In the late 1980s China's economic returns showed an obvious decline.

The first thing was that the material consumption rate rose greatly. In 1978 it was 56 percent, in 1984 it was

57.1 percent, in 1985 it was 57.7 percent, in 1988 it was 60.6 percent, in 1989 it was 61.8 percent, and in 1990 it was 62 percent. Although it can be said that within that there were such inevitable factors as the organically composed rise in economic development and funds, such a great rise in the material consumption rate is directly related to low management levels.

The second thing was that for every 100 yuan new increase in accumulation the national revenue decreases markedly. In 1978 it was 34 yuan, in 1984 it was 51 yuan, in 1985 it was 52 yuan, in 1988 it was 57 yuan, in 1989 it was 30 yuan, and in 1990 it was 26 yuan.

The third thing is that the profit tax rate on totally independently accounted industrial enterprise funds has declined. In 1984 it was 23.6 percent, in 1985 it was 24.2 percent, in 1988 it was 20.53 percent, in 1989 it was 16.79 percent, and in 1990 it was 12.2 percent.

The fourth thing is that the range and the volume of enterprise losses have risen greatly. Up to the end of 1991, as many as 29.7 percent of state-run industrial enterprises in the budget experienced losses and the volume of losses also rose 10.6 percent over the previous year on top of 100 percent increases the two previous years. If potential enterprise losses are added, the range and volume of losses would be even higher.

The fifth thing is drawing out the time limits on construction projects. Despite constant improvements in the mechanization and the industrialization of China's building construction, construction completion dates are becoming longer and longer. For example, according to 1990 statistics on the 195 key state construction projects, the average planned construction time was six years. At the end of 1989 average construction was 6 years 2 months and incomplete projects still required two to three years. Construction delays in general construction projects were even greater. For example, in the electric power industry the construction time for thermal electric stations 25,000 kilowatts and under extended from 20 months in the 1950s to 41 months in the 1980s and construction time for thermal electric stations from 25,000 to 100,000 kilowatts extended from 32 months in the 1950s to 54 months. In the coal industry, the construction of a 300,000 ton mine was extended from 27 months in the 1950's to 64 months in the 1980's, the construction time for 450,000 ton mines extended from 30 months to 49 months, and the construction time for 600,000 ton mines extended from 46 months to 111 months. Construction delays not only affect return on investments, but also increase the contradiction of tight construction funds.

There are many reasons for the decline in China's economic returns, but from the economic aspect the four areas making up macroeconomic returns: returns on the disposition of resources, returns on economies of scale, returns on technological advances, and returns on business management have not been ideal. The improvement either has been very minute or they have tended to worsen. Returns on the disposition of resources have declined, most prominently displayed in the great tendency toward sameness in local economic structure. The difficulty in achieving returns on economies of scale is mainly exhibited in the lack of specialization and the tendency to smallness in enterprise structure. According to estimates, 65 percent or more of Chinese enterprises have not now met the requirements of production of scale and processing industries' returns on scale especially are extremely low, almost to the point of being difficult to compare with the same type foreign product. The affect of returns on technological advances is

very minute. The contribution rate of technological advances to economic development is only about 20 percent, far lower than the 60 to 70 percent level of advanced foreign countries. The loopholes in business management are even more numerous.

(4) Agricultural Production and Circulation Systems Unsound, Development of Reserve Strength Inadequate

Presently, the main form of China's agricultural production is stuck at the small farming production stage with decentralized management and an extremely low level of mechanization. It is mainly characterized by small scale (1.3 mu of cultivated land per person and 7 to 8 mu of cultivated land per household), a low rate of labor productivity, and farmland lacking in basic water conservancy facilities and with a low level of mechanization. Agricultural production's capability to withstand natural disasters is rather lacking. To a very great extent they still rely on the weather to eat.

A new system suitable to the integration of the planned economy with market adjustment still has not been formed for the circulation of agricultural byproducts. China with a vast population and great regional diversity, has a very great need for agricultural byproducts and a rather high demand for agricultural byproducts and needs to be assured of stable production and unimpeded circulation. But for a long time, we have been rather serious about production, but not serious enough about circulation. This is manifested by such facts as unreasonable agricultural prices, an inflexible administrative system, an unsound social services systems for before, during, and after production of agricultural products, and great agricultural product price fluctuations. And "the more we cut, the less we catch up" and sometimes it is hard to "sell" and sometimes it is hard to "buy" and the ever greater prominence of agricultural product circulation problems often cause direct antagonism between farmers and the state. But true consumers have nothing to do with this. Whether there is a bumper harvest or not the state and the farmers take full responsibility.

Because of the contradiction between the agricultural production and circulation systems, the contradiction between agricultural production and planned control is aggravated. What the state wants produced often is low-priced with little profit and the farmers do not want to produce a lot, and when the market is not sound, prices are distorted, and information is ineffective, and business is inclined toward profit, whatever is profitable will be produced, and it often creates disequilibrium between agricultural production and sales and instability in supply and demand affecting the coordinated development of the national economy. Especially because of the small-scale, decentralized management model which fails to adapt to market needs, it also is very difficult to adapt to the demand for mechanized, scientific production and agricultural production costs become ever higher seriously affecting increases in farmers' income.

(5) Large, Low Quality Population Base, Employment Contradiction Extremely Pronounced

An important national characteristic of China is its large population. At the end of 1991 the total population reached 1.156 billion. Moreover, the quality of the population is not

high. Data from the fourth census revealed that 22.3 percent of the population fifteen years old or older was illiterate or semi-illiterate. The population fifteen years old and older on average received only 6.4 years of education and still belonged to a mainly lower class developing country. In addition, the level of economic development was not high, resources were in relatively short supply, and the contradiction of labor force employment was extremely pronounced. As far as China's present situation is concerned, the urban rate of those awaiting employment still is not high, only 2-3 percent, but development is not sufficiently balanced among regions, in a few regions it is 8 percent or higher. Moreover, throughout the nation in the next ten years 7 million will be added to the urban labor force. At the same time, the potential unemployment problem must not be overlooked. Behind the excessive production capacity actually lies a labor force surplus and behind the overstuffed organizations also lies an excess labor force.

Compared to the urban labor force utilization, the excess rural labor force situation appears even more serious. Before reform and opening up, China, proceeding from a consideration of the accumulation of economic development funds, exercised strict controls over the mobility of the urban and rural population and transfers between the agricultural and nonagricultural labor force. A large surplus labor force was detained in agriculture. Five people cultivated a field that one person could cultivate. After reform and opening up, the rural diversified economy underwent a rather great development. From 1979 through 1988, probably more than 50 million in the rural labor force transferred out of agriculture. The conversion of rural residents to nonrural residents also accelerated. Accompanying this the rural economy experienced a rather great development and farmers' living standards improved a great deal. But beginning with 1989, because employment outside the plan was cleared up and fixed asset investment was reduced, a large amount of the rural labor force flowed back and farmers were forced to return to their small plots. It is estimated that there presently is an excess rural labor force of more than 100 million people. In 1989 the share of the agricultural labor force in the rural labor force increased 0.7 percentage points and the farmers' per person actual net income experienced its first negative growth since reform, it fell 1.6 percent from 1988. Although this problem was somewhat alleviated in 1990 and 1991, increases in the farmers' per person actual net income still were rather low, averaging less than 2 percent. The rural economy was restricted and farmers' purchasing power shrank. Conversely, it also affected the smooth development of the entire national economy. How to find a place for the excess labor force is a problem for economic development and requires very good planning and consideration to strive to alleviate it.

(6) Rapid Accumulation of Citizen Financial Assets, Irrational Structure

In recent years, Chinese citizens' surplus purchasing power has built up rapidly. By the end of 1991, it was as high as 1.038 trillion yuan, the equal to 110 percent of that year's total retail commodity sales. Even though as trends go this is normal and is an indicator of economic development, the

rate of accumulation is a little fast. Moreover, how to use these funds also became a new problem for economic development. Presently, Chinese citizens' financial asset structure remains at the level of the traditional product economic model. Except for a small amount used to purchase national treasury bonds, financial bonds, and a minute amount of stocks, more than 80 percent was deposited in savings accounts. This structure contains numerous disadvantages for the development of the national economy. One is that it greatly increases the cost of operating the national economy. Citizens' savings are through the link up of the banks and the users and the main source of enterprise funds is bank loans. No matter how the enterprise business is and whether or not the loan can be paid back, the bank must pay the citizen interest on the deposit. The business risks are all born by the state. The second thing is that it easily induces market fluctuations. Because of the unitary nature of financial assets and the flexibility of withdrawals, citizen financial assets are extremely unstable and can impact on the market at any time. The third thing is that individual citizens do not directly participate in the investments, lessening the control over returns on the use of funds.

II. Problems Can Only Be Resolved by Intensification of Reform

By their very nature the problems and contradictions described above are caused by irrational economic systems and lack of smooth economy relations. It is inevitable that these problems and contradictions would occur in the process of replacing the old economic system with the new and they can only be resolved by relying on intensified reform. First, we should draw up a concrete framework for a socialist planned commodity economic system and grant a place and a function to the macro and the micro level, the government, enterprises, and individuals in the new economic system, and smoothly order all types of relations from the macro level. Secondly, we should set up sound and necessary laws and procedures so that all economic activities will be legal and ordered. Thirdly, macrocontrols should be improved to gradually make them more scientific and reasonable.

In the next two years we consider that we can at least carry out the following reforms:

1. Actively promote trial reform of financial systems and strive for authority to take operational initiative. Such things as structural adjustment, improved returns, and greater macrocontrol capabilities all involve reform of financial systems. If we want to resolve the situation of financial revenues being unable to make ends meet, we also must reform financial systems. (1) Accelerate trial reform of tax subsystems. In this way, on the one hand, we can solve the problems of taxing authority not being centralized, tax laws not being unified, and tax payments being seriously eroded and, on the other hand, we can increase the central government's fiscal control capabilities. Even though most tax payments still must later be returned to the localities, the central government's fiscal control capabilities could also be greatly increased. In addition, it also could lay the foundation for separation of government and enterprises and be an incentive to destroy regional blockades and eliminate the

system of regional structures tending toward sameness once and for all (2) Try double budgets. The budget would be divided into a regular budget and a developmental budget. The regular budget should not have any gaps or combined surpluses. The developmental budget could have some appropriate deficits that could be remedied by domestic or foreign borrowing. (3) Clear up and rectify fiscal expenditures and reduce unnecessary expenditures. The state treasury presently pays out nearly 40 billion yuan in price subsidies and nearly 60 billion yuan in subsidies for enterprise losses. If through price reform (such as appropriately raising the grain sale price) we can transfer 25 percent of the price subsidy burden, we could save 10 billion yuan a year. If through reforms we could reduce enterprises' nonpolicy losses, and lower loss subsidies 20 percent, we could increase the fiscal allocation capability by 12 billion yuan. With the measures described above, we can strive to raise central finances' share of state finances and state finances' share of the national income by three to five percentage points.

2. Smooth out financial and monetary relations and do a good job of fully utilizing monetary controls. We should further improve the central bank's control function and gradually lessen the administrative interference on the bank of various levels of government. We should adopt administrative legislation to rigidly separate the bank from the Ministry of Finance and clearly stipulate that the Ministry of Finance must not use any means to entice revenue from the bank and loans to banks from the Ministry of Finance should pay interest. Specialized banks should be essentially detached from the central bank and gradually shift to being responsible for their own profits and losses, thereby ensuring that the bank do a good job regarding currency and credit. In addition, we should continue to do a good job with such monetary methods as interest rates, discount rates, and reserve funds.

3. Continue to carry out enterprise reform. The current contract system must be further reformed and improved. The key is to do a good job of handling the three major junctures of base figures, returns, and reserves, and eliminate contract system abuses as much as possible. From a long-term perspective, we think that the contract system is only an expedient measure. To truly separate government and enterprises and separate their authority, we must seek still another way. For this reason we should continue to conduct trial enterprise stock system and associated monetary reforms with the public ownership system as primary and other ownership systems as secondary and, by combining implementation of an enterprise law with a bankruptcy law, gradually establish a mechanism to adjust the amount of fixed assets retained and pursue experiments for future reform.

4. Establish an unemployment social safeguard system. To optimize the structure and improve administrative returns, we reject the necessity of total employment. But it also is not advisable for unemployment to be too high. In the initial period it should be controlled at 3 percent or below. For this reason, we must establish an unemployment social safeguard system as quickly as possible. The organizational

structure can be produced by the labor department and funds can be paid according to a specific ratio by the state, workers, and enterprises.

5. With gradual elimination of the "dual track system" as the focus, actively promote price reform. Presently, following the previous period of improvement and rectification, the planned price and the market price of a great many goods and materials are coming together. We should grasp the opportunity to categorize the current dual track products, distinguish the situation, and merge them. With the intensification of reform of the economic systems, to promote reforms to adjust and combine pricing system at the appropriate time, we should put forth an effort to develop prices into a mechanism and, with the exception of the prices on a few important commodities and labor services controlled by the state, we should strive in a future period to gradually free the prices on the vast majority of commodities and labor services and rely on market adjustments.

6. Accelerate reform of the urban housing system. First we should clearly determine that the goal of China's housing reform is to commercialize and socialize housing. We should gradually form a diversified housing occupancy structure with a small portion of privately purchased houses, a large portion of houses rented from real estate companies, and an extremely small number of people living in public housing and, by means of market competition with planned direction, determine reasonable housing sale prices and rent. By raising rents and proper management, we should succeed in using rent to develop housing and form a good housing construction cycle. In this way, first we can cast off the financial burden as quickly as possible. Secondly, we can improve the citizens' lives and give people new benefits. Thirdly, we can gradually form new 1990s consumption hot points and economic growth points.

7. Open up a new way to use foreign investment and speed up adjustments in the asset reserve structure. Presently one of the principle ways that China uses foreign investment still is the establishment of special economic zones and economic development zones. Essentially the state provides land and the foreign business does the construction. As a result, a great deal of valuable foreign investment is used for construction of basic facilities and associated functions and the results from the use of foreign investment are rather lacking. If we could a little better utilize present basic facilities, factories, and skilled workers by updating technology at a few selected old factories, we could greatly improve returns on foreign investment and have a positive effect on adjusting the domestic structure. So, we should give the necessary policy encouragement to this reform "to graft" the use of foreign investment.

8. Enhance legal system education and reinforce the development of law enforcement forces. First we should increase publicity on the law and improve citizens' concept of the law through various media. Secondly, we should gradually effect a public service system and use a public service law and high salaries to hold back law enforcement forces and ensure honest, fair, and effective law enforcement.

9. Take the first step in establishing a scientific and reasonable macrocontrol system. (1) Formulate or revise People's

Congress, State Council, and ministry and commission operating regulations and smooth out relations among ministries and commissions so that the responsibilities of ministries and commissions are clearly demarcated and the scope of their decisions is reasonable. (2) Establish a macroeconomic decision oversight committee to oversee macroeconomic decisions and take responsibility for collecting and giving immediate feedback on the implementation of macroeconomic decisions.

Macroeconomic Regulation: Problems, Solutions

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[Article by Zhu Mingchun (2612 2494 2504), of the Macroeconomic Regulation Department, Development Research Center, State Council. "Current Problems in Macroeconomic Regulation and Control and How To Deal With Them"]

[Text] 1. Major Problems in Macroeconomic Regulation and Control at Present

The main problem that needs solution in current macroeconomic regulation and control is how to readjust the economic structure while controlling total demand and supply, not only to prevent the economy from overheating but also to rationalize its structure. After more than two years of efforts to rev up the economy in every possible way, it can be said that the sluggish market and economic downside which started since 1989 have now been basically turned around. In 1991, while continuing to maintain a basic balance between total demand and supply, the GNP increased by about 7 percent, industrial output by about 13.2 percent, and total retail sales and investment in fixed assets by about 13 percent and 14.6 percent respectively. Therefore, the principal contradiction in macroeconomic regulation and control at present is no longer a question of boosting the economy. On the contrary, because of the failure to resolve the structural contradictions at the same time, some very abnormal conditions have developed in the growth of the economy, and there are even signs of the danger that the economy may overheat again on a low efficiency level. Only by really putting the emphasis of regulation and control on achieving the optimum economic structure, will it be possible to solve the more deep-rooted problems such as the debt chains, overstocking of finished products, poor economic performance of enterprises, financial difficulties, credit inflation, etc., which have continued for a long time and are interrelated and mutually restricting, and only then will it be possible to bring about a benign economic cycle as soon as possible. Specifically speaking, in the present stage, macroeconomic regulation and control is faced with the following major tasks:

1. It is necessary to maintain an appropriate growth rate, optimize the industrial structure, and prevent the economy from overheating. Judging by conditions in 1991, the economic growth rate was already fairly high, but the restriction to growth by weak market demands was not relieved. At the same time, the scarcity of resources may again become a growth-restricting bottleneck. Owing to the adoption of a

series of measures to curb production and reduce stocks, funds tied up in finished goods by state-owned industrial enterprises covered by the state budget fell by 5.9 billion yuan at the end of November 1991 from the previous month, an obvious improvement. But the chronic problem of overstocking, which stood at 126.7 billion yuan, remained unsolved, and the market restriction to economic growth was not removed completely. Moreover, the readjustment of the industrial structure in the past few years has not gone far enough to change the structure of production capacities. The original production capacity of the overdeveloped processing industries remains intact, and as the economy picks up as a whole, the output of the processing industries is also growing at a faster pace. The proportion of the output of the processing industries to industrial output as a whole, after dropping for once in 1989, rose back to 48 percent at the end of September 1991, higher than the previous high of 43.9 percent in 1988, and the ratio between the processing industries and the basic industries could worsen again. It is obvious that preventing the economy from overheating has become a major task for macroeconomic regulation and control at present and that it is imperative to carefully arrange total supply and demand, continue to tighten financial and monetary policies, and at the same time strive to shift the emphasis of macroeconomic regulation and control to rationalizing the economic structure to create conditions for the coordinated development of the national economy.

2. It is necessary to use both the planning and market means to improve the product mix and the organizational structure of enterprises. A good industrial structure manifests itself in a good product mix and has its roots in a good organizational structure of enterprises. Rationalization of the industrial structure is the major task of macroeconomic management for the immediate future. Therefore, we must use both the planning and market means to further improve the product mix and the organizational structure of enterprises. The key lies in creating a macro environment for the optimization of the organizational structure of enterprises. For example, efforts should be made to improve the social insurance system and at the same time protection of enterprises by central and regional authorities should be reduced, so that the market mechanism can play a role directly in readjusting the industrial structure. The government should not only encourage enterprises to merge or switch to other lines of production according to changes in the pattern of market demands, but also allow and encourage some enterprises to declare bankruptcies. Only in this way will it be possible to change the irrational product mix without further delay, readjust the industrial structure, and achieve the optimum re-allocation of resources.

3. It is necessary to control the amount of money in circulation, improve the credit structure, and reduce the inflationary pressure. As it was needed to stimulate continued economic growth and to solve the debt chains and other problems, credit was increased by a rather large margin in 1991. By the end of November 1991, bank loans already totaled 229.9 billion yuan, including an increase that was 17.4 billion yuan more than the increase in the same period in 1990, and the year's total was estimated to

exceed 280 billion yuan, far beyond the planned control level. In order to coordinate efforts to solve the structural problems, it is imperative in 1992 to control the increase in loans and the amount of money in circulation and put the emphasis of financial work on continuing to improve the credit structure, and as dictated by the industrial policy, to continue requiring some enterprises to limit production and reduce stocks, encourage technological transformation projects that help meet market demands, and help enterprises improve their product mix and organizational structure.

4. It is necessary to control investment in new construction projects, put more emphasis on key construction and technological transformation projects, and strive for greater economic returns on investment. As of November 1991, investments in fixed assets by state-owned units totaled about 245 billion yuan, up by about 24 percent over the same period the year before. The size of the increase was basically within the nation's capability, and, at the same time, the investment structure continued to improve. Greater proportions of investment funds went to the transport, postal and telecommunications services, from 12.15 percent to 13.3 percent, and the raw and semifinished materials industries, from 16.3 percent to 17.2 percent. And the speed of the construction of key projects also increased somewhat. At present, the major problems in the investment field are: first, to keep new construction projects under control and continue to put greater emphasis on key construction and technological transformation projects, and second, to strive for greater economic returns on investment. By the end of November 1991, capital construction and renovation projects costing 50,000 yuan or more each totaled 40,000, an increase of more than 12,800 projects over the same period in 1990 at an excessive growth rate, and a considerable number of these projects failed to meet industrial policy requirements. As to the returns on the investments, from January through November 1991, 22.2 percent of the capital construction and renovation projects went into production, a 0.7 percent increase from the same period in 1990, but the percentage of fixed assets turned over to the users was only 24.1 percent, slightly lower than in the same 1990 period.

5. Continued efforts should be made to remove the local barriers and guide the regional economies to develop in a coordinated way. Only the policy dealing with the market splitting has produced some results in the past few years, but as the economy gathers momentum and enters a new period of growth, market separation and local protection will come back in new forms. Guiding the regional economies to develop in a coordinated way remains an important aspect of macroeconomic regulation and control.

II. Optimization of the Macroeconomic Regulation and Control Mechanism Facing Practical Contradictions

As mentioned previously, structural rationalization is one of the major goals of improving the economic environment and rectifying the economic order. However, it has become clear in the past three years and more that though the most important objective of improving the economic environment and rectifying the economic order, to bring price

increases and inflation under control, has been achieved, another major objective, to optimize the economic structure, has not. One reason is that during this period structural readjustment has in fact received less emphasis than price control and economic growth, and has not become the main subject of economic policies. But a more important reason is the restriction of the economic system and the failure of the regulation and control mechanism. It is manifest that during the period before the completion of the economic restructuring, the enterprises in general still cannot play an active role in structural readjustment, as they lack the motive and ability to adapt to market changes and readjust their own structures accordingly, that without clearly defined property rights, the enterprises' ability to accumulate and develop is very limited, that the regulation and control mechanism of the national government, as the main player in structural readjustment, still falls behind the requirement of reform and development, and that the administrative measures, which are no longer as effective as they were in the past, are made even less effective by local barriers and protection.

It is obvious that to achieve effective macroeconomic regulation and control, it is necessary first of all to change the regulation and control mechanism. A macroeconomic regulation and control mechanism, which is adapted to the needs of the development of a planned commodity economy and relies mainly on indirect means of regulation and control, should be established in order to effectively combine planning with the market and bring into full play the role of the market mechanism. At present, with the improvement in the relationship between total supply and demand, the focus of macroeconomic regulation and control must be shifted from controlling total supply and demand to structural improvement. At the same time, the macroeconomic regulation and control mechanism should also be changed appropriately. Consideration should be given to reducing direct administrative control as much as possible and relying mainly on indirect regulation and control to bring into fully play the role of the market mechanism, guide the enterprises to actively improve their product mix and organizational structure, and improve the industrial structure as a whole. The problem is, in real economic life, indirect macroeconomic regulation and control may also be restricted by the economic system and fail to play its proper role. Specifically the change of the macroeconomic regulation and control mechanism toward relying mainly on indirect means is faced with the following practical contradictions:

1. The relationship between the enterprises and the state has yet to be rationalized, and indirect regulation and control lacks an effective microeconomic basis.

The effectiveness of indirect regulation and control comes mainly from interest inducements. Therefore, it is necessary to establish a microeconomic basis for the enterprises to react normally to the interest inducements. Only by improving the enterprises' interest mechanism, including the motive mechanism and corresponding action mechanism, will it be possible for the state's indirect macroeconomic regulation and control to have an effect on the enterprises. Actually the improvement of the enterprise

interest mechanism will fail to meet the nation's rationalization of the relationship between the state and the enterprises, and under the present system indirect regulation and control will make no effect on the macroeconomic base.

Since the beginning of the reform, the relationship between the state and the economy has been established in many ways, but the crucial issue of interests has never been effectively resolved. Under the contract system now being promoted throughout China, the state shoulders the main responsibilities of property ownership and macroeconomic regulation and control, but the enterprises only have limited management powers. This has given rise to two problems. First, the budget restraint on enterprises is still inadequate, and all kinds of so-called short-grip actions, which hurt the interests of the property owner and increase the profit of the contracting enterprises, are likely to occur. Second, at present direct administrative measures are great the effect in macroeconomic regulation and control, and the state has something to do with property rates. The state often takes advantage of its role as property owner to develop property work, the enterprises' management, and at the same time also sets interest rates, taxes, and other measures used to carry out indirect regulation and control, which are often ineffective because of the enterprises' lack of concern about property and long-range interests. From the enterprises' viewpoint, the profits from households as property management may be more tempting and easier to get than the interests they can expect from indirect regulation and control.

2. The trend of increasing income distribution to the individuals is hard to stop, and the financial basis for macroeconomic regulation and control is weak.

To carry out macroeconomic regulation and control mainly by indirect means, the state also needs to have certain financial resources as a base. Because the price signals in the various forms of interest mechanism are determined mainly by the market, the economic levers which the state can use as inducements with some flexibility, such as taxes, investments, interest rates, and so forth, all need such a financial base to be effective. At present, this base should be considered very weak.

Since the beginning of the reform and opening to the outside world, the pattern of national income distribution has changed greatly. The final income of the state, the collectives, and the individuals from the gross domestic product were proportionally 31.6:19.1:49.3 in 1978 and 14.5:23.6:61.7 in 1990. The state's income dropped sharply by 17.1 percentage points, the income of enterprises, which should have increased sharply, actually increased by only 4.7 percentage points, and the income of individuals rose sharply by 12.4 percentage points (all figures as printed). The change in the pattern of national income distribution has tilted too far in favor of the individuals, which unavoidably weakens the state's financial base for macroeconomic regulation and control, causes the state revenue and the revenue of the central government to drop rapidly in proportion to national income, and aggravates the financial difficulties. As shown by facts in the past few years, although some counter measures have been adopted, the trend of increasing income distribution to the individuals continues

hard to stop. In the past few years, despite the sluggish market and the sharply falling national income growth rate, household consumption, in proportion to the amount of national income spent, has continued to increase. The problem is, the macroeconomic regulation and control system, which should be adapted to the pattern of income distribution, has lagged far behind the changing conditions. Its effectiveness is still built on the fairly strong financial base the state used to have, and in the new situation it simply does not have what it takes to do the job.

3. The imperfection of the banking system and underdevelopment of the money markets have reduced the usefulness of interest rates as a lever in macroeconomic regulation and control.

In the mainly indirect macroeconomic regulation and control system, with the relatively scattered national income distribution and the growing financial strength of the common people, the main role in macroeconomic regulation and control should be shifted gradually from the financial system to the banking and monetary system, to maintain a balance between total supply and demand through the effective control of money supply by the central bank and to readjust the industrial structure through the constant improvement of the bank credit structure. However, because of the imperfection of the banking system and the underdevelopment of the money markets, it is still difficult at present for China's banking and monetary system to effectively regulate and control the operation of the national economy. Regarding the banking system, one key problem is that the specialized banks have not been really turned into business operations, but continue to exist as the government's functional departments. Their properties, as those of enterprises, belong to the state, and their operations are to a very large extent controlled and influenced by the government. They do not have sufficient authority to make their own decisions on loans, and therefore can neither guarantee the microeconomic rationality of loans, nor consciously establish a micro credit control sluice gate. Another key problem is that the central bank's position and its relationship with the specialized banks have yet to be rationalized. Not only does the central bank fail to concentrate on macroeconomic regulation and control, which is its responsibility, but it also lacks the power and means to control the financial sluice gate. As to the money markets, even though they have developed fairly rapidly in the past few years, direct financial markets, especially the stock market, are still in the beginning stage. The financial assets of the common people had exceeded 1 trillion yuan in 1991, but with the exception of the cash in their hands, more than 80 percent of their money is kept in only one form of savings accounts. This underdeveloped state of the money markets has also reduced the scope of influence and regulatory and controlling power of interest rates and other financial levers. Especially in a period of relatively uneventful economic operation, the impact of minor changes in interest rate is very limited on both deposits and loans.

4. The macroeconomic regulation and control system seriously hamstrung by the state financial system cannot

regulate and control the state-owned economy and the nonstate-owned economy in the same way, and is in a dilemma.

Mainly direct macroeconomic regulation and control is based on state-owned enterprises occupying an absolutely dominating position. It acts directly on the state-owned enterprises, with the state financial system playing a fairly large leading role. At the same time, indirect regulation and control acts through the market on all enterprises, state-owned or nonstate-owned, treating both equally without discrimination and trying to achieve the same results. Under present conditions, however, this is hardly possible.

In typical macroeconomic regulation and control under the traditional system, the state financial system undoubtedly played the leading role, as can be seen from the relationship between the state financial system and the banking institutions: the state financial system controlled all revenues and expenditures in every part of the national economy, state investment was the main driving force for economic growth, reducing investment was the basic way to restrain an overheated economy, in making plans consideration must be given first to the financial situation, and the banking and monetary institutions played a rather limited role, and even their sources of capital consisted largely of deposits from the state. The situation has now changed a great deal. For example, the extrabudgetary funds owned by enterprises and local governments now roughly equal their budgetary funds; household savings deposits have become the banks' main source of funds; state investment is no longer the main driving force for economic expansion, and in 1990, budgeted state investment accounted for only 6.7 percent of the total investment in fixed assets, a drop by about 15 percentage points from the 23.6 percent in 1983 and even more from the 1970's. Therefore, it can now be said that the state financial system no longer plays the leading role in macroeconomic regulation and control. However, despite all the changes in form, macroeconomic regulation and control is essentially still under the influence of the state financial system. (On the one hand, the state still shoulders the heavy burden of sustaining the operation of the national economy and still spends huge sums of money in construction investments, enterprise loss subsidies, price subsidies, and so forth. On the other hand, the state still relies much too heavily on the state-owned sector of the economy as a revenue source. Therefore, state revenues and expenditures still directly affect the operation of the national economy and have created a dilemma in macroeconomic regulation and control. Because in macroeconomic regulation and control today the more controllable sector remains the state-owned industries, during periods of economic retrenchment the state-owned sector is generally the first to be cut back, and in periods of growth the state-owned sector often lags behind in recovering. The state-owned and the nonstate-owned sectors cannot be regulated and controlled in unison. However, because the state-owned industries are the state's main revenue source, it is imperative to insure proper growth of the state sector of the economy, and when the lagging state economy really grows, the economy as a whole is often on the verge of overheating. Thus keeping industry as a whole from growing too fast and keeping

state-owned enterprises growing at a suitable rate have become a difficult problem for macroeconomic regulation and control, as it is hard to do both at the same time. Moreover, the growing problem of economic barriers set up by local governments is to a very large extent also attributable to the financial system. The local financial contracts and the great influence of the financial system on macroeconomic regulation and control impel local governments to seek more revenues in every possible way, even by hook or by crook.

Obviously the removal of this undesirable influence of the financial system on macroeconomic regulation and control has become an important prerequisite for changing the macroeconomic regulation and control mechanism. For this reason, we must speed up the major reform of the financial system.

From the above analyses, it is obvious that to raise the level of macroeconomic regulation and control, we must first change the regulation and control mechanism, and that unless the change is accompanied by reform of the economic structure and the economic operational mechanism, it will not achieve the expected results.

III. Measures To Improve the Macroeconomic Regulation and Control Mechanism

In 1992, the major task of macroeconomic regulation and control is, on the basis of consolidating the achievements in improving the economic environment and rectifying the economic order and maintaining a basic balance between total supply and demand, to suitably speed up the pace of reform and open still wider to the outside world, really shift the focus of our work to readjusting the economic structure and raising economic efficiency, and insure continuous, steady, and coordinated development of the national economy. For this reason, we must concentrate our efforts on changing the mechanism and raising the level of macroeconomic regulation and control. Specifically this task covers the following areas.

1. It is necessary to deepen the reform of state-owned enterprises, redefine the property rights, and strengthen budgetary restraints.

In-depth reform of state-owned enterprises is an important microeconomic basis for establishing a mainly indirect macroeconomic regulation and control system. At present, to invigorate and improve the state-owned enterprises, we must, in addition to continuing to delegate more power to the enterprises and energetically reducing their burdens, further resolve the property rights issue. Regarding some enterprises which should remain state-owned, it is necessary to give full play to the role of the state-owned property management system and really separate ownership from management and government from enterprises, so that the enterprises will be given sufficient power to make their own operational decisions, while the state will concentrate on preserving and increasing the value of assets and achieving the optimum allocation of resources. As for the rest and the majority of state-owned enterprises, it is necessary to reform

the property ownership system by introducing the shareholding system and so forth, establish an enterprise long-term interest mechanism and a decision-making check-and-balance mechanism, use the market mechanism to set standards for enterprise behavior, give full play to the role of the businessmen as a social stratum, solve the enterprise vitality problem once and for all, and also create a micro-economic foundation for effective macroeconomic regulation and control.

2. It is necessary to rationalize the pattern of national income distribution and rebuild the financial foundation of macroeconomic regulation and control.

In a mainly indirect macroeconomic control system, the financial, monetary, and other economic levers must work in coordination, and to properly handle these economic levers, the state still must have a certain financial base. For this reason, it is also necessary to carry out appropriate reforms in the field of distribution with the emphasis on reversing the phenomenon of excessive income distribution to individuals. On the one hand, the proportions that go to the state and the central government should be increased appropriately, and on the other hand, it is even more important to strengthen the ability of enterprises to accumulate funds and develop on their own. Therefore, in actual work, it is necessary not only to pay attention to strengthening tax collection and management, preventing "leakage and evaporation," speeding up the implementation of the revenue sharing system, and rationalizing the financial relations between the central and local governments, but also to pay close attention to plugging the "funnels" through which enterprise income is turned into individual income, for example, the unreasonably low base figures in contracts, excessively large welfare and bonus funds, stock and bond issues with high earnings rates regardless of cost, and so forth. To solve these problems, we must rely on further deepening the reform of the financial system and the enterprises and concentrate our efforts on standardizing the distribution system.

3. It is necessary to develop more revenue sources and establish a progressive financial stabilizer.

In addition to such financial reforms as the revenue-sharing system, separation of taxes and profits, dual budget, and so forth, the rebuilding of China's financial system should also include the expansion of revenue sources. In the past, most of China's financial revenues came from the state-owned sector, particularly the state-owned industrial enterprises. With the reform and opening to the outside world and the development of the planned commodity economy, the income of individuals and of joint ventures, individual-owned enterprises, town and township enterprises, and other nonstate economic operations is increasing rapidly. To keep pace with this developing trend, the revenue sources should also be expanded. Except for the necessary preferential policies, the nonstate-owned sector should be taxed in basically the same way as the state-owned sector is taxed in order to create the conditions for equal competition. We should make even greater efforts to turn the highly progressive individual income tax gradually into the state's major revenue source, and on this basis to establish the role

of financial revenues and expenditures as a stabilizer in the regulation and control of the economic operations.

4. Banks should be commercialized, and financial restraint should be strengthened.

To strengthen the central bank's independent policy-making position and to run the specialized banks like business operations—this is the basic direction for the reform of the banking system. Only in this way will it be possible to strengthen the banks' own budgetary restraint and their ability to hold back on loans and to strengthen the position and role of the banking system in macroeconomic regulation and control. For this reason, it is equally necessary to insist on separating government from enterprise in the banking business. First, it is necessary to allow the central bank to make relatively separate decisions from those of the government, to enhance the central bank's independent policy-making status and strengthen its control of the main financial sluice gate. Second, loans granted for policy considerations and general operational loans, which are at present handled both by the specialized banks, should also be separated relatively, and industrial banks, regional development banks, and other policy banks should be established to create the conditions for the further commercialization of the specialized banks.

5. It is necessary to develop the direct money market to promote the building up of the market system.

To increase the effectiveness of macroeconomic regulation and control and change the macroeconomic regulation and control mechanism, we must further develop and perfect the market system. As the actual conditions show, the huge amounts of household savings deposits have provided the favorable conditions for developing the money market, and suitable development of nonbank direct financing will have an important bearing on readjusting enterprise structure and breaking the present low-efficiency economic cycle. The development of direct financing will also have a rather important bearing on improving the interest-rate mechanism and strengthening the state's financial regulation and control capabilities. Therefore, we should seize the present opportunity to bring into full play the role of direct financing in a controlled manner, and, on the basis of developing the money market and strengthening financial management and through expanding bond issues and suitable issuance of enterprise stocks, remove the high savings basis which has sustained the sick economy, improve the economic operational mechanism, and use it to propel the all-round development of the market system.

Shareholding Experiments To Follow Strict Rules

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[Article by Zhang Miansheng (1728 4875 0524)]

[Text] An official in charge of the State Commission for Restructuring the Economic System revealed to a reporter a day ago that the State Council recently approved its "report from the symposium on shareholding enterprise experiments" with the State Council Office of Production. He asked that all refer to this report in preparing shareholding

experiments. He emphasized that the experiments are an important and far-reaching reform of a high policy nature. While strictly following the rules, experiments must be boldly undertaken and unfold smoothly.

When speaking of important issues regarding the shareholding experiments, this official noted several items. One, relevant laws and regulations concerning the shareholding experiments cannot keep up with the rate of organizing and establishing them. For example, progress is slow on formulating corporate law, laws for securities, and securities exchange laws. They cannot keep pace with new developments. In order to direct such work, the municipal governments of Shanghai and Shenzhen formulated "Provisional Regulations for Limited Shareholding Companies." They have been approved by the State Commission for Restructuring the Economic System, the Ministry of Finance, the People's Bank of China, and the State National Asset Management Bureau. These regulations can be used to organize and establish shareholding enterprise experiments in the two cities. Other areas also formulated regulations, most of which fail to follow the general rules for shareholding systems. Regional characteristics are too prevalent so it is difficult to follow rules to guide them. Two, a sizeable group of shareholding enterprises do not follow rules; they fail to adhere to the basic rules for shareholding systems. Among the experiments, some enterprises neglect the principle of "equal shareholder rights, commonly held risk, and the same dividends on the same shares." Different dividends are given for shares held by the state, corporations, and individuals. In general, individuals get higher dividends than state or legal bodies. A good number of enterprises confuse shareholder and creditor rights, shares and debts, and dividends and interest. Some provide individual shareholders with "three guarantees" (guaranteed principal, dividends, and extra profits). Dividend rates are far higher than bank savings rates, thus shares lose their meaning and role. Certain enterprises even turn in-house workers' shareholdings into expanded bonuses. Three, the assets of some experiments have been under-appraised or never appraised. Among enterprises which have shareholding systems supported by workers' wages, the majority are converted into the enterprise's book value net assets, without figuring in land utilization fees, or the replacement value of factories and equipment. Invisible assets are not taken into account either. Some enterprises have never even appraised their assets, lest they lose publically-held assets or risk seizure of state-held share interests. Four, there are too many opportunistic and resold shares in society. Five, knowledge about shareholding systems is lacking. There is a serious shortage of talent and adequate work experience.

He noted that these issues were not brought about by the shareholding system itself. They are rather the result of the external environment, insufficient knowledge, and a lack of work experience. Given such circumstances, the next steps should be to augment guidance, clarify demands, assist existing shareholding enterprises in continuing to improve rule adherence, and actively start new shareholding experiments which follow rules, instead of expanding the numbers of existing shareholding enterprises that do not follow rules.

At present, rather than rushing to have shareholding everywhere, we should encourage enterprises to commence from their own actual conditions and select operational methods suited to their own situations.

He said that the guiding ideology for the next steps of shareholding experiments mentioned in the "report" is to experiment steadfastly, not seek to have too many experiments, operate well, and be mindful. We must try to get results by strictly following the basic rules. The actual demands are to:

As soon as possible, formulate rules, regulations, and methods for organizing or establishing shareholding experiments. At present, Shanghai and Shenzhen have two regional regulations from which other areas can consult and learn. Regarding national regulations and methods, mainly the "corporate law, laws for securities, and securities exchange laws," must be formulated and brought out as soon as possible. Until conditions exist to allow these regulations to come out, the relevant sectors of the State Commission for Restructuring the Economic System and the State Council will issue "Opinions regarding organizing and establishing shareholding experiments" and accompanying policy documents as basic reference materials for experiments everywhere. They will be revised and reissued after they are in use for a while and submitted to the State Council for formal approval.

Enhance fundamental work such as propaganda and training. We have to organize and establish a group of state-approved accounting firms that adhere to international practices. Shareholding enterprises lack the most fundamental conditions for public issuance of stocks and a listed exchange when there is neither a full financial accounting system nor audits by reputable accounting firms. State-approved accounting firms must be held legally responsible for listed companies which they have audited and signed their names to.

Study ways to augment stock market management. In the present situation, this mainly means resolving well two issues: one, preventing market control, and two, curbing insider trading. Together with the People's Bank of China, the State Restructuring Commission is preparing to study effective measures to ensure the healthy development of the stock market and normal functioning of the stock exchange.

Seize opportunities, create circumstances, divide into stages and experiment in steps. China's shareholding enterprises generally divide into four categories: One, shares held by corporations; two, shares held by workers within an enterprise itself; three, public issuance of stocks which are not traded on the market; four, public issuance of stocks traded on the market. Each category has its own characteristics with corresponding prerequisites and conditions. In particular, organizing, establishing, and experimenting with the third and fourth type involve great technical difficulties and may easily lead to social repercussions requiring comprehensive consideration of actual conditions and real reform progress. They require orderly progress and adopting reliable policies. Given present conditions and possibilities, enterprises should try mainly the first and second types of

shareholding. At present experiments of the third type are restricted to Guangdong, Fujian, and Hainan. Those of the fourth type are limited to Shanghai and Shenzhen. Enterprises elsewhere which have issued to the public stocks that can be traded on the market must be strictly controlled; they can be put on the Shanghai or Shenzhen stock markets only with the approval of the Stock Market Office of the State Council. Shareholding experiments in Shanghai and Shenzhen should move ahead boldly in a planned manner. This is advantageous to China's garnering the methods and experience to develop a shareholding system as soon as possible and to even better guide the work at hand.

Macroeconomy Forecast, 1992-1993

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[Article by Huang Yuncheng (2806 6663 2052), Wang Shouren (3769 1108 0088), An Wanfu (1344 8001 4395), and Wu Guofu (0702 0948 1381): "Forecast of China's Macroeconomy for 1992-1993"]

[Text] 1. Forecast of China's Macroeconomy for 1992

1) Economic growth. In 1992 China entered its fourth economic cycle (short economic cycle as measured by the monthly economic index) since reform began. According to projections, the economic cycle will peak in late 1991 or the first half of 1992 and economic growth will slow down considerably in the second half of the year. On the whole, however, the Chinese economy will still experience fast growth in 1992. The convening of the 14th National Party Congress in the fourth quarter of 1992, in particular, will be a powerful boost to the economy, possibly delaying the onset of the downturn in economic growth. For the year as a whole, GNP and national income are projected to increase 7 percent and 6 percent, respectively; the gross value of industrial output (village level and above, in constant 1990 prices) will reach 2,727,779,000,000 yuan, up 12.7 percent over a year ago, the rate of growth being one percentage point lower than the preceding year. In terms of stages, industrial output will increase 14.2 percent in the first half of the year and 11.2 percent in the second half. For all 1992, light and heavy industry will expand 12.0 percent and 13.4 percent in output value, respectively, while the output value of industry owned by the whole people and that of industry not owned by the whole people will increase 7.3 percent and 20.3 percent, respectively. Total energy output will amount to 1,062,957,000 tons, up 3.6 percent over 1991, while electric energy production will climb 9.1 percent from the level a year ago to hit 724,184,000,000 kwh. Energy shortages will ease considerably.

2) Demand and prices. As the Chinese economy grows, changes in demand will display these characteristics. First, changes in consumption demand will exercise an ever-rising elasticity on supply growth. Households are the principal source of consumer demand. Their consumption habits and property choices and preferences help determine the economic growth rate and the pattern of economic growth through the commodity market and financial market. Second, international demand has become a much more

significant factor in domestic production. Economic growth between regions has assumed a ladder-shaped pattern and economic growth has been trickling from the east to the west. Moreover, with investment demand hemmed in by fund sources, investment has become increasingly market-led. For these reasons, therefore, the focus of macroeconomic regulation and control should be the strengthening of the guidance over demand. In the current economic climate featuring a mix of planning and market, the gap between supply and demand is less one of aggregate volume than one of structure. In 1992, demand growth will basically be as follows: 598 billion yuan worth of social fixed assets investment will be completed and social commodity retail sales will reach 1,079,472,000,000 yuan, up 16.4 percent and 14.5 percent, respectively, compared to the year before; combined imports and exports (as calculated by customs) are projected to hit \$154,129,000,000, up 14.2 percent, including \$83,288,000,000 in exports and \$70,841,000,000 in imports, up 16.2 percent and 12.0 percent, respectively, over the preceding year, yielding a trade surplus of \$12,447,000,000. In 1992, the social commodity general retail price index will climb 6 to 8 percent over 1991, possibly exceeding 10 percent in a handful of large- and medium-sized cities, while the workers' cost of living index in 35 large- and medium-sized cities will rise 10 to 12 percent. Rising prices will be a basic fact of life for large- and medium-sized cities, affecting mainly capital goods and services.

3) Revenues and expenditures. It remains one of the arduous tasks of government economic work in 1992 to ensure an effective increase in government revenues. Major measures of fiscal and tax reform that have been introduced by the government, such as the separation of taxes from profits, the tax separation system, and double-entry budgeting, will not make any progress of a breakthrough nature in 1992. Because they have too many age-old bad habits, measures introduced to improve large- and medium-sized enterprises will not be able to turn money-losing concerns into profitable ones overnight. Moreover, no new taxes will be introduced in 1992, the investment regulating tax will have very limited after effects, and the effort to adjust the rates of existing taxes is fraught with difficulty. (The government has given up an attempt to adjust the sales tax rates.) For all these reasons, if we exclude earnings from national debt (fairly elastic in practice) and despite the plan to issue state investment bonds next year, government revenues would continue to account for a more or less unchanged share of the national income and are expected to increase only 6 percent or so to reach 345.56 billion yuan (excluding debt earnings). On the spending side, because of the expansion of the experiment in tax-profit separation, spending will continue to increase quite sharply, up 12.9 percent over 1991 to reach 390.56 billion yuan. The projected budget deficit is 45 billion yuan, higher than the actual deficit for 1991.

4) Currency and banking. A net amount of \$6.4 billion yuan will be put into circulation in 1992 and the money supply by year end is expected to be 376,374,000,000 yuan, an increase of 17.6 percent over the year before. M1 and M2 will increase 14-16 percent and 25-27 percent, respectively.

compared to the previous year. The total amount of loans of all types is projected to reach 349,951,000,000 yuan, up 6.9 percent over the year before, including 235,867,000,000 yuan in working capital loans, up 31.6 percent over 1991 or 67.4 percent of all loans. Deposits of all types will increase 22 percent or 425,539,000,000 yuan over 1991. The deposits to loans ratio will be 1:1.13. Savings by both township households and peasant households will increase 235,430,400,000 yuan and 50,084,000,000 yuan, respectively, up 38.9 percent and 21.9 percent, respectively, over a year ago.

5) The stock market. At the moment there are three stock markets in the nation that concentrate on the buying and selling of stocks, namely the Shenzhen Stock Exchange, the Shanghai Stock Exchange, and the Beijing (National) Stock Exchange and Automatic Price-Reporting Center. They are expected to experience substantial growth in 1992. First of all, the value of stocks and bonds of all types issued is expected to break the 100 billion yuan barrier. Between them the Shenzhen and Shanghai stock exchanges will have over 30 companies listed, more than double the number a year before. Second, a new stock exchange—the Hainan Stock Exchange—will emerge. The “three exchanges and one network” will go a long way toward spurring the development of stock markets in China, attracting foreign and domestic funds, guiding enterprises in changing their operating mechanisms, and expediting the reform of the investment system and banking system. Third, the stock markets will play a more significant role in macroeconomic regulation and control.

2. Problems in Macroeconomic Development in 1992

1) Economic overheating. According to our analysis of the results of a questionnaire survey involving a group of economists, 80 percent of the experts thought that there were already signs of economic overheating in 1991. In our opinion, these were the major signs of economic overheating: 1) Industrial growth was excessively rapid. Industrial output nationwide is projected to have increased 13.6 percent in 1991, about 2.6 percentage points higher than the average annual rate (11.0 percent) in the 1981-1991 period, the fourth highest-growth year since reform began and comparable to 1984 in growth rate. 2) Inventories have been increasing faster than industrial output. According to a survey on 40,000 enterprises across the nation, industrial output value grew 13.7 between January and October 1991 while inventories jumped 14.5 percent, 0.8 percentage point over and above the growth in output value. The output value of large- and medium-sized enterprises, in particular, rose 11.0 percent while inventories expanded 15.1 percent, or 4.1 percentage points faster. As of late October, enterprises had 230,030,000,000 yuan tied up in goods sent out and loan repayments due or already made, 38,021,000,000 yuan more than at the beginning of the year. 3) Output of popular products continued to soar between January and November 1991; the output of bicycles, color TV, and metal cutting machine tools grew 17.7 percent, 21.8 percent, and 30.5 percent, respectively. In response to demand, enterprises making these products have been boosting output in a premature fashion. Given the productive capacity of these

industries, their output may well continue to climb. Each of these industries has its own special reasons as to why it has been able to maintain a high growth rate, but there also are some common explanations. High taxes boost local government revenues. Keeping the factories operating at full capacity helps motivate the workers. In a small market, there are pressures to accelerate production and grab a larger slice of the market. After being idle for some time, there is a built-in tendency on the part of a plant to react to demand stimulus by exaggerating market signals. Our projections call for economic overheating to intensify in 1992 for these reasons. First, the traditional habit of industry to expand. Second, the effects of investment fever. Third, enterprises psychologically expect market demand to pick up. Fourth, the political signal sent out by the 14th National Party Congress.

2) Severe fiscal difficulties. With a projected budget deficit of 20 billion yuan, the macroeconomy was already plagued by fiscal problems in 1991. There is no relief in sight for China's fiscal plight in 1992. This is why: 1) The low profitability of state enterprises, particularly large and medium-sized enterprises. According to the questionnaire survey, 55.7 percent of the experts polled cited declining enterprise profits as the principal cause of fiscal difficulties. Our projections call for an increase in the profitability of large- and medium-sized enterprises in 1992 but do not foresee any fundamental improvement. It will take a long time for enterprises to overhaul their operating mechanisms. Therefore, the decline in the profits of state enterprises will remain a major cause of fiscal problems for some time to come. 2) Principal and interest payments constitute a heavy burden. In 1991, such payments took up 7.2 percent of all government spending, a proportion which is expected to rise by 2 percentage points to reach 9 percent or so in 1992. 3) Substantial administrative costs. Such costs swallowed up 6.5 percent of government spending in the first 11 months of 1991. Barring major departmental reorganization, it is unlikely that personnel costs will come down. 4) Excessive price subsidies. Price subsidies accounted for 9.6 percent of government spending in the first 11 months of 1991, a figure not likely to change in a significant way in 1992. Given the current fiscal plight, the state is not in a position to dole out money on this scale in the long haul. The only solution is to deregulate prices and cut subsidies without delay.

3) Inadequate financial regulating and control capability. The central bank was set up in 1983. Since then a wealth of valuable experience has been obtained through endless review and practice in the areas of improving macroeconomic regulating and control mechanisms and implementing the monetary policy. The central bank played a crucial role in managing inflation in 1985 and 1988 and in the drive to improve the economic climate and rectify the economic order in the last two or three years, at the same time raising its stature all the while. Be that as it may, some problems have emerged in the past few years. A failure to correct the bank's weaknesses in macroeconomic regulation and control in time may adversely affect economic development in 1992. 1) When it comes to the implementation of the monetary policy, the central bank lacks

autonomy. The implementation of the regulatory and control policy fails to keep pace with the unfolding economic reality. Judging from the way economic overheating was dealt with in 1985 and 1988, the monetary policy lags the economy by about eight to 14 months. In our opinion, there are at least three reasons why the monetary policy fails to keep pace with the economy in a timely way. First, the central bank exercises no effective supervision over economic development. Second, there is too much administrative intervention in the economy, preventing the central bank from carrying out its monetary policy independently. The result is that there is too long a delay between policy formulation and implementation, and the opportunity for effective monetary adjustment is lost. Instead of stabilizing and regulating the economy, therefore, the existing monetary policy only amplifies ups and downs in the economy. 2) The direct regulation and control of the scale of lending lacks flexibility. Given the explosion in demand and soft credit restraints, the method of direct control and regulation has reduced the use of other financial tools. Since September 1988 credit scale indicator control has consistently been in use. Under this system, the scale of credit for any particular year is determined by increasing the scale of credit of the preceding year by a certain percentage. This practice is not scientific enough. In any case, the scale has been exceeded in reality year after year, which shows that the method is not effective. 3) In carrying out its monetary policy, the central bank is not supported by effective legal tools, which robs the monetary policy of its enforceability. There is nothing that can legally stop enterprises from falling behind in loan repayment without a good reason. The result is that enterprises are encouraged to undermine the monetary policy. 4) The manipulation of interest rates for leverage, the inventory reserve fund, and the open market operations have not proved effective. Further study is needed to find out how the central bank can be more effective in macroeconomic regulation and control by learning from the success of advanced nations. 5) Own funds account for a relatively small share of the funds of the central bank and its mix of debt lacks variety, hampering the effective implementation of the monetary policy. In 1991, own funds made up about 8.2 percent of the central bank's funds, while total urban and rural savings deposits (banks, credit unions) accounted for 53.56 percent. When inflation is severe and market supply and demand is highly unstable, the households' income expectations and property choices may deal a heavy blow to the existing banking system. If the central bank does not respond with administrative tools, it would not have much of a response. On the other hand, if the bank does resort to administrative tools, its credit rating would suffer.

4) Rising inflationary pressure. Although the social commodity general retail price index rose less than 4 percent in 1991, the workers' cost of living index was significantly higher than 8 percent in 35 large and mid-sized cities. In 10 of these cities, the workers' cost of living index even exceeded 10 percent. The inflationary message is loud and clear. In 1992 inflationary pressure will intensify for the following reasons. 1) The delayed effects of inflationary pressures in 1991. That year the budget deficit was a high 20

billion yuan, a record since reform began, and 55.516,000,000 yuan worth of money supply was issued, smaller only than that of 1988 (67,955,000,000 yuan). Over 300 billion yuan in assorted loans was lent. By year end, the amount of loans still outstanding was up 21.6 percent, about 8 percentage points higher than the industrial output growth rate. Considering the delay in monetary effects, the impact of all this will gradually be felt in 1992. 2) The budget deficit in 1992 and the pressure of the money supply. We expect a budget deficit of 45 billion yuan and an increase in the money supply to the tune of 56,401,000,000 yuan. The amount of outstanding loans at year end is also projected to increase 19.0 percent, still higher than the growth rate of industrial output. All of that will intensify accumulative inflationary pressures. 3) Price adjustment. The state is slated to adjust grain procurement and selling prices as well as the prices of some raw materials in 1992. These measures are entirely necessary but will also help boost prices. 4) As their costs rise, enterprises will come under increasing pressure to raise the prices of their products. During the last couple of years, the prices of upstream products have gone up by a substantial margin. There is a widespread demand among enterprises to raise prices. In August 1991, raw material prices rose 9.1 percent overall. Specifically, the prices of fur and energy rose 11.6 percent, ferrous metals, 10.7 percent, and building materials and non-ferrous metals, 10.2 percent. Among industrial enterprises, those in the raw materials industry raised their prices by 11.8 percent. These developments will inevitably put enormous pressure on downstream enterprises and processing industries, prompting them to look for any opportunity to raise prices. 5) The effects of the economic cycle. With the economic cycle possibly peaking in 1992, economic overheating will be a serious problem. This will exacerbate the structural imbalances in supply and demand and worsen the structural shortages of products, resulting in demand-led price increases. 6) The public's heightened inflationary expectations. As economic growth accelerates and market demand soars, consumers' inflationary expectations also intensify. In late 1991, word was going around that there would be widespread increases in consumer goods prices in 1992, touching off panic purchasing in some areas. In fact, several rounds of local panic purchasing had already occurred in 1991, which fully indicates that citizens are psychologically geared up for market instability and price increases. Given the appropriate triggering factor and influenced by the mass media, the inflationary expectations of the public and panic purchasing may well spread rapidly, resulting in price increases across society. 7) Agriculture was hit by disasters in 1991, but prices did not rise significantly in the disaster-stricken areas that year. There are two reasons for this. First, material support from the state and various sectors. Second, a period of time must elapse before the areas' demand for commodities is transmitted and responded to. The actual commodity circulation itself also takes time. In 1992, materials sent to aid the disaster-stricken areas will gradually be exhausted. Sufficient time also will have elapsed for the information to get through and commodities to circulate. This will be a unique price-increasing factor.

5) Increase in market risk and instability. As economic growth accelerates and inflationary pressures intensify, so do market risk and instability. 1) The structural imbalance in market supply and demand will sharpen. According to the questionnaire survey, 78.6 percent of the experts polled believed that despite the large amount of work we have done in three years of economic rectification, the drive to rationalize China's economic structure has produced only minimal changes. As the economy overheats, popular products will continue to be turned out in volume, and shortages will coexist with surpluses. Therefore, we cannot merely adjust the total supply-demand volume, but also must step up structural adjustment in earnest. 2) There has been no fundamental improvement in the "triangular debt" problem. The "triangular debt" problem, which came to the fore during the drive to improve the economic climate and rectify the economic order, is a matter of overall importance that involves production, circulation, distribution and consumption. It has been directly caused by: (1) There is a severe shortage of fixed assets investment funds. The production sector that turns out commodities as well as construction enterprises are owed large sums of money for merchandise made or projects completed. (2) Enterprises are incurring heavy losses. (3) The failure of the Ministry of Finance to make up for policy-induced losses has resulted in an acute shortage of funds among productive enterprises. (4) Products that turn out to be unpopular or downright unsaleable, which translate into mounting inventories. As a result, the amount of enterprise funds tied up in unsold goods has remained stubbornly high. (5) Fifth, the buying and selling of commodities is disorderly, the rules of account settlement are not strictly enforced, and the sense of credit is weak. Behind these direct causes, in turn, are more deep-seated reasons that have to do with the economic system, the planned investment system, financial and banking system, price system, and enterprise system. Since these problems have not been resolved in any fundamental way, "triangular debt" will continue to be a principal hindrance to stable economic growth and to the rationalization of market supply and demand in 1992. 3) The investment risk caused by the development of the stock markets. In 1992, both the stock issue market and circulation market will experience significant growth, accompanied, however, by investment risk. Following the development of the secondary stock market, particularly in the wake of the decision in 1991 to issue bonds through the market, citizens are increasingly keen to invest in stocks and stock fever is rising in temperature. Because of a robust purchasing power and insufficient supply, the value of stocks today is seriously out of step with their actual value. This situation is sending a wrong message to many investors, misleading them into thinking that one can only make money and not lose money by investing in stocks. With the stock markets poised to expand steadily throughout 1992, the consequences of this misunderstanding deserve our attention.

3. The Trend of Macroeconomic Change in China in 1993

In view of the continuous deepening of economic structural reform and shifts in the world economic climate, a host of factors can influence the economic situation in 1993. It is

still not clear for now which way things will turn out. However, we can at least make these predictions concerning China's economy in 1993:

1) The rate of industrial growth will not exceed 10 percent. Industrial growth will be constrained by: 1) The economic cycle will be on a downward curve. Right now we are still unable to predict with accuracy the specific stage of the economic cycle in 1993, but the direction of the trend is clear. There is full evidence that the economic cycle will have passed the turning point and entered a period of contraction in 1993, when industry and the entire economy will slow down. 2) In 1992 the state will continue to insist that some enterprises limit output or to borrowing to the level of inventories. This too will put a damper on industrial growth overall in 1993. 3) Monetary variables such as loans and savings will have passed their cyclical peaks back in 1991. Because of the one-year lag in the monetary policy, it will be consistent with the usual pattern for industrial output to decline in 1993. 4) Trade barriers. Right now there are serious conflicts in Sino-U.S. trade. If the U.S. decides to slap on China Special Article 301 in 1992, it will adversely affect China's export growth in 1992 in a major way. In 1990, exports and imports accounted for 31.4 percent of China's GNP (in 1990 prices) and 38.5 percent of national income. China's economy has become highly integrated internationally. According to data on January through November 1991, America was China's fourth largest trading partner and accounted for 10.3 percent of China's total foreign trade. If there are any setbacks on the trade front in 1992, economic growth for the year will certainly be affected.

2) The rate of inflation will not drop below 6 percent. With inflation picking up steam in 1992, there is little chance it would follow a downward course in 1993. 1) A hefty budget deficit will put pressure on the central bank to put more money into circulation, intensifying inflationary pressures. 2) Given the present level of interest rates and the current state of loan management, the external circulation of funds has reached serious proportions, undermining the ability of the central bank to assert financial control and making the market more risky. 3) As soon as the enterprises' "triangular debt" problem and swollen inventories are eased somewhat, the problem of excessive demand will recur immediately on a big way. In times of slow economic growth, this problem will be twice as serious if inflation is not brought under effective control.

3) The capital market will experience even more rapid growth. In our projections, new heights will be reached in 1993 after more than 100 billion yuan worth of negotiable securities of all kinds are issued in 1992; the amount of stocks issued will continue to increase substantially; the volume of business on the circulation market will rise sharply; the growth rate of the stock market in terms of both issue and circulation will continue to exceed that of bonds; a financial futures market will take shape; a variety of new financial tools, such as the trading of creditor's futures rights, may become reality through a buy-back agreement of secured bonds and foreign exchange futures market; and local bonds will be issued. (Fiscal difficulties these days are

apparent at the local as well as central levels. Local governments will be forced by reality to make such a choice.)

4) The economic structure will be adjusted and enterprises will experience a new growth in profitability. Nineteen ninety three marks the third year of the drive to sort out the "triangular debt" problem. In conjunction with enterprise structural reforms, both the economic structure and enterprise profitability will show an improvement. 1) A growth in profits in the coastal areas is a foregone conclusion. 2) The margin of profit of large- and medium-sized enterprises will also improve. Provided they become market-oriented and change their mechanisms, they will be able to work their way out of their current plight. 3) The spectacular expansion of township and town enterprises is the third engine that will keep the economy flourishing.

The following people took part in research and discussion relating to this report: Zong Kanyuan [1350 7030 033], Fan Wenhui [5400 2429 6540], You Xiangdou [1429 6772 675], Gao Jianhong [7559 0494 5725], Xu Dong [6070 2639], Zhang Guoming [1728 2413 2494]. Computer processing: Zong Kanyuan.

PROVINCIAL

Beijing Communique on Economic Development

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[Communique issued by the Beijing Municipal Statistical Bureau on Beijing Municipality's 1991 economic and social development]

[Text] In 1991, the Beijing municipal party committee and the municipal government led the people of all nationalities in the municipality to firmly and unswervingly implement the party's basic line, known as the "one central task and the two basic points," and to vigorously pioneer the road of advance with emancipated minds, thus taking a big step in reform and opening and making great achievements in economic development. According to preliminary statistics, the gross domestic product in 1991 was 56.17 billion yuan, up 7.5 percent over the previous year (calculated in terms of comparable prices, the same applies for the following statistics), and the national income, 40.51 billion yuan, up 7.2 percent. Industrial production continued to increase, and economic efficiency improved somewhat. The rural economy developed in an all-around way, and a bumper harvest was reaped in grain again. Markets enjoyed brisk buying and selling, and the margin of increase of retail prices was controlled within the target. Investment in fixed assets went up by a reasonable margin, and key projects were built outstandingly. The scale of opening was expanded continuously, and a record high was set in utilization of foreign capital and in tourism. Banking and the credit situation was good, and financial revenues increased steadily. Various social undertakings also witnessed gratifying results.

1. Industry

In 1991, the industrial economic efficiency improved somewhat. The per-capita labor productivity of the state-owned

industrial enterprises that exercise independent accounting in the municipality was 46,480 yuan (in terms of the constant prices of 1990), up 5.9 percent over the previous year; the comprehensive energy consumption for each 10,000 yuan of output of industrial enterprises was 26,500 tons of standard coal, down 8.3 percent from the previous year; the income earned from sales by the enterprises covered by the provincial budget was 10,727 billion yuan, up 14.6 percent; the profits achieved by such enterprises was 2,671 billion yuan, up 7.3 percent; and the profits delivered by such enterprises to the state in the form of tax payment was 3,015 billion yuan, up 10.7 percent. The number of enterprises running at a loss decreased by 24.3 percent from that in the previous year, and the volume of deficits declined by 33.2 percent. The turnover period of the fixed-quota floating funds was 13 days shorter than that in the previous year; the funds tied up by finished products decreased by 8.8 percent; the profit- and tax-yielding rate of marketing was 16.3 percent, and the profit- and tax-yielding rate of funds was 21.1 percent. Quality control was strengthened. The improvement rate of the quality of industrial products was again enhanced over that of the previous year. In a survey conducted by local industrial departments, 98.4 percent of the export commodities sampled met quality standards, and rate of the 52 varieties of domestically sold products in 30 categories that met quality standards was 4.32 percentage points higher than the national level, or 0.8 percentage points over the figure of the previous year. In the national appraisal of quality products, 24 varieties of products gloriously won the state gold and silver prizes, including five gold-medal products and 19 silver-medal products, joining the municipality in the ranks of the nation's best in the number of medals.

In 1991, the municipality achieved good results in developing new industrial products. In the entire year, industrial enterprises throughout the municipality developed 2,540 varieties of new products, a considerable number of which reached the advanced international level or filled gaps in the country. The municipality developed some 26,000 varieties of products with new designs, specifications, patterns, and packaging, thus enriching market demands. In 1991, the output value of new products was 7,848 billion yuan, accounting for 19.4 percent of the total output value of industrial enterprises, and generating some 856 million yuan in profits and taxes.

In 1991, industrial production increased steadily. The total industrial output value was 89.03 billion yuan (in terms of the constant prices of 1990, the same applies to the following statistics), up 12.5 percent over the previous year. Excluding the industries at or below the village level, the total industrial output value was 76.34 billion yuan, up 16.8 percent over the previous year. Of the total industrial output value, output value of central industries increased by 4.8 percent, that of local industries, 12 percent; that of the whole people owned industries, 6.7 percent; that of the collective industry, 20.7 percent; of which, the output value of township-run industries went up by 27.1 percent; and that of the industries of other categories, 23.9 percent. In addition, the output value of light industry was 11.4 billion yuan, up 9.2 percent; and that of heavy industry was 44.94

13,000 large- and medium-sized tractors, an increase of 0.5 percent, and 18,000 trucks, a decline of 1.8 percent. Some 144,000 tons of chemical fertilizer (100 percent effective composition) were applied, the same as in the previous year, and 2 billion kwh of electricity were used in the rural areas, up 3.6 percent. In 1991, the area of farmland under spray irrigation topped 1 million mu and reached 1,006 million mu across the municipality.

Township enterprises in the Beijing suburban areas comprehensively promoted technological progress, firmly grasped product quality, and maintained a sustained and stable development in production. In 1991, the industrial output value reached 20.29 billion yuan, up 25.1 percent over the previous year; the total industrial revenue reached 21.3 billion yuan, up 24.2 percent; the total profits generated amounted to 2.35 billion yuan, up 18.2 percent; and the total volume of delivered export goods reached 1.97 billion yuan, up 48.7 percent.

3. Investment in Fixed Assets and the Building Industry

Under the premise of controlling the total amount of investment in fixed assets, the investment demands increased and the investment structure was further readjusted. In 1991, the completed investment in fixed assets in the entire society reached 19.03 billion yuan, up 6.2 percent over the previous year. The total investment in fixed asset (excluding investment in houses sold as commodities) reached 14.5 billion yuan, up 6.9 percent over the previous year. Of this, local investment in fixed assets reached 8.77 billion yuan, up 17.7 percent. Of the investment in fixed assets, the investment in capital construction of state units reached 8.73 billion yuan, up 2.9 percent over the previous year; investment in implementing the measures for equipment replacement and technical updating and for other purposes totalled 5.27 billion yuan, up 17.9 percent over the previous year; and the investment in urban and rural collective units reached 500 million yuan, a decline of 18 percent from the previous year.

In 1991, there were 1,110 state and municipal capital construction projects under construction, 18 more than in the previous year, of which 469 were local projects, 12 more than in the previous year; state and municipal enterprises completed 2,254 equipment replacement and technical updating projects, an increase of 173 over the previous year, of which 1,618 were local projects, up 124 percent over the previous year.

In 1991, the whole municipality built 28,669 million square meters of housing, which was 98.5 percent of that of the previous year; and completed 10,498 million square meters of housing, 93.1 percent of that of the previous year, of which 6,234 million square meters were for residential houses, 101.8 percent of that of last year. Smooth progress was made in the construction of key projects. In 1991, the entire municipality conducted 13 state key projects with 440 million yuan in investment. The entire municipality conducted 45 key projects and large- and medium-sized capital construction projects during the year, of which 11 projects, including the people's hospital, Beijing hospital, Beijing modern biological center, Huafeng computer center, and Xixiang road projects, were completed or partially completed.

In 1991, the municipality had 37 technological transformation and equipment renewal projects whose investment exceeded the stipulated norms. A total of 970 million yuan were invested in these projects. Some of these projects went into operation and another group of production capacity was formed.

Building industry production continued to improve. The total output value of the building industry reached 10.55 billion yuan, an increase of 5.2 percent over the previous year. The per capita labor productivity, if calculated according to the construction output value, reached 16,479 yuan, an increase of 6.8 percent over the previous year.

4. Urban Construction and Urban Management

The municipality made prominent achievements in building urban infrastructural facilities. The Xixiang road project was comprehensively completed in 1991. The newly built roads were 5.94 km in length and occupied an area of 504,000 square meters. Among the projects completed during the year were five overpasses, respectively in Xibianmen, Tianningzi, Guanganmen, Baizhifang, and Caihuying, 10 underground passageways, and bridges totalling 6,128 meters in length and occupying an area of 106,000 square meters. Seven kinds of underground pipelines totalling 61.4 kilometers were paved. Approximately 4-km worth of the Xihucheng He river course was realigned. Thus, the river water became clear again. The Gaopaidian sewage treatment plant structural project was comprehensively started. The construction of seven underground sidewalks in Qianmen was in full swing. Eight new bus lines, totalling 85.7 kilometers in length, opened, and 10 bus lines, totalling 14 kilometers in length, were extended. In 1991, the volume of passengers transported by buses reached 3.44 billion people, an increase of 2.7 percent.

Another 92,000 households were supplied with coal gas and natural gas during the year. As of the end of 1991, there were 1,847,000 households using coal gas, natural gas, and LPG. The municipal tap water company sold 520 million cubic meters of water during the year, an increase of 6.1 percent over the previous year. Of this, 360 million cubic meters of water were for living use, an increase of 9.9 percent over the previous year. The second-phase project of the No. 9 waterworks was comprehensively started. Some 16.14 billion kwh of electricity were used during the year, an increase of 7.3 percent over the previous year. Of this, the urban and rural dwellers used 1.11 billion kwh of electricity, an increase of 16.7 percent.

The municipality made new headway in making the urban areas green and beautiful during the year. A total of 4.33 million trees were planted, 2.08 million meters of lawns were grown, some 1.467 million biennial-root flowers and plants were planted, 649,000 Chinese rose trees were planted, and 329 hectares of grassland were developed during the year. The greenery coverage rate of the urban areas reached 28.14 percent.

News of victory in environmental protection and improvement kept pouring in. Some 74 pollution sources were eliminated and 12 key plants and workshops causing serious pollution were improved or relocated. All urban districts and 72.5 percent of the suburban towns were put under smoke

and dust control. To coordinate with the application to host the Olympic Games, the municipality launched a campaign to comprehensively improve the environment with the focus on eliminating dust and vehicle emissions and established small areas that experimented with the elimination and reduction of dust. To protect the quality of drinking water sources, more than 4,300 hectares of water conservation trees were planted around Miyun Reservoir. 2,000 toilets in peasant households in the first-grade water source conservation areas were rebuilt. 135 square km of water and soil erosion areas were improved, and 1,300 hectares of sandy and barren areas were comprehensively developed. All this helped protect the agricultural ecological environment. Two low-noise areas were built in Beixinqiao of Dongcheng District and Taoranting of Xuanwu District, and 96 permanent noise sources were eliminated. This freed more than 4,000 dwellers from noise interference.

In 1991, 38,268 million square meters of roads were kept clean, an increase of 3.6 percent over the previous year. A total of 3,971 million tons of garbage and 2,103 million tons of night soil were transported, respectively increasing by 3.4 percent and 1 percent. A total of 238 enclosed sanitation stations were built during the year, thus helping reduce secondary pollution. Fifty public toilets of the third category were rebuilt or repaired during the year.

5. Transportation, Post, and Telecommunications

Communications and transportation developed steadily, and the pressure on transportation continued to be relieved. However, the volume of transportation by communications and transportation departments still showed a decline from the previous year. The total volume of cargo transported by various means of transportation throughout the municipality was 65 million tons, of which, the cargo delivered by railways was 45,037 million tons, near the level of the previous year; the cargo transported on highways was 34 million tons, down by 4.9 percent from the previous year; and the cargo delivered by civil airliners was 43,000 tons, up 27.5 percent. The volume of passengers carried by various means of transportation, except for highways, all showed an increase over the previous year. Of this, the volume of passengers carried on railways was 52,474 million people, up 3 percent from the previous year; that by highways, 27,485,400 people, down by 1.1 percent; and that by civil airliners, 2.82 million people, up 30.6 percent.

Fairly rapid progress was achieved in post and telecommunications service, with the 1991 business volume totaling 1,567 billion yuan (in terms of the constant prices of 1990), up 29 percent over the previous year. In 1991, a total of 340 million letters were delivered, up 1 percent over the previous year; 980 million copies of newspapers, periodicals, and magazines were issued, up 7 percent; and 68,663 million long-distance telephone calls were connected, up 53.6 percent. At the end of 1991, the capacity of telephone switchboards reached 620,000 lines, 104,000 lines more than at the end of 1990, or an increase of 20 percent. There were 393,000 local telephone subscribers, up 18.7 percent, being the year with the highest increase in the number of telephone subscribers.

6. Commerce

In 1991 the retail market continued to maintain the good trend of stability and prosperity. In 1991, the total volume of retail sales was 35.78 billion yuan, 16.3 percent higher than the increase rate of the previous year. In the total volume of retail sales, the retail sales of consumer goods increased by 16 percent, of which, the goods sold to residents increased by 15.6 percent, the goods sold to institutions by 18.3 percent, and the means of agricultural production sold to peasants by 21.9 percent. Although the municipality experienced slightly overheated sales of food items, clothing, and daily necessities, a trend of steady increase was maintained in 1991. The sales of food items increased by 13.6 percent; clothing, by 15.9 percent; daily necessities, by 18.9 percent; and fuels, by 7.6 percent. The commodities with a relatively large increase in sales volume mainly include beef, chicken, aquatic products, dried fruits, chemical fiber cloth, woolen goods, silks and satins, sweatshirts and pants, color television sets, cameras, washing machines, boilers, refrigerators, and machines for agricultural use.

In 1991, the municipality firmly refused to carry out local protectionism and allowed a great quantity of brand-name, good quality, and special commodities of other provinces and municipalities to enter Beijing, thus expanding the sources of commodities and making the supply rich, making the best year in history. In 1991, the total value of commodities purchased was 45.07 billion yuan, up 18 percent over the previous year, and the total value of commodities marketed was 48.58 billion yuan, up 16.4 percent, of which, the wholesale value of commodities was 22.7 billion yuan. At the end of 1991, the total value of commodities in stock was 13.49 billion yuan, up 1 percent.

The construction of the commercial network developed further. At the end of 1991, there were 132,000 commercial and service shops in the municipality, 8,000 more than in the previous year, or an increase of 6.4 percent. The transaction volume of country fairs and markets reached 3.58 billion yuan, up 51 percent. In the municipality, out of every 10,000 people, 127 owned commercial or service shops, six more than the figure of the previous year.

Over recent years, commercial shops for various economic sectors developed in an all-around manner, giving rise to a new pattern in which the publicly owned commercial shops played a dominant role as supplements to cooperative and individual shops. In viewing the 1991 total retail volume, the retail volume of the publicly owned shops accounted for 53 percent, that of collective shops, 34.3 percent, that of cooperative shops, 0.7 percent, and that of individual shops, 11.3 percent.

The retail price hikes were controlled within the plan. In 1991, the general level of retail prices rose by 8.5 percent. Of this, the prices of foodstuffs rose by 11.2 percent; that of clothing, 5.7 percent; daily necessities, 7.1 percent; cultural and recreation products decreased by 5.6 percent; books, newspapers, and magazines, rose by 3 percent; medicines and medical equipment, 5 percent; and fuel, 35 percent. The adjustment of bus fares and prices of monthly tickets caused service charges to jump by 42.9 percent during the year. The

price level for the cost of living of workers during the year rose 11.9 percent over the previous year.

7. Foreign Economic Relations and Trade and Tourism

Foreign economic relations and trade were continuously developed, and international tourism was the best in history. The year 1991 was the first year for our municipal foreign trade specialized companies to implement the system of assuming responsibility for their own profits and losses. During this year, our municipality continued to maintain a good trend in the development of foreign export trade, with the annual total value of foreign export trade reaching \$1.37 billion, an increase of \$5 million, or 3.7 percent, over the previous year.

The entire municipality continued to improve the investment environment for foreign businessmen during 1991, actively and extensively absorbed foreign investment, and made noticeable achievements in this regard. During the year, we approved the establishment of 724 "joint, cooperative, and foreign-funded" enterprises, an increase of 483, or 200 percent, over the previous year, and concluded agreements involving \$280 million in foreign capital, up 140 percent. As of the end of 1991, the entire municipality had approved 1,561 "joint, cooperative and foreign-funded" enterprises, 610 of which began business and went into production. The annual total output value they created (current prices) reached 7.95 billion yuan, up 55.1 percent over the previous year, of which the total output value of industry reached 7.64 billion yuan, up 54.3 percent, accounting for 12.3 percent of the total industrial output value of the localities across the municipality if calculated in terms of current prices, the sales (business) income reached 9.36 billion yuan, up 60.7 percent, the foreign exchange created through export amounted to \$140 million, up 39.3 percent. In 1991, we contracted for construction projects and labor cooperative services abroad, involving \$170 million, and conducted business transactions totalling \$33.82 million, all setting all-time records.

The most historical record was set in international tourism. The municipality as a whole received 1,321 million tourists from outside the territory, approximately 120,000 tourists over the record year of 1988, an increase of 320,000 people, or 32.1 percent, over the previous year. Among them, 914,000 people were foreigners, an increase of 276,000 people, or 43.3 percent, over the previous year. The annual foreign exchange earnings from tourism was 4.49 billion yuan (foreign exchange in renminbi), up 42.8 percent over the previous year.

8. Finance and Banking

In financial revenue, we maintained a steady increase for nine successive years. The financial revenue in 1991 reached 7.702 billion yuan, overfulfilling the annual budget and showing an increase of 4.1 percent over the previous year. Of this, the industrial and commercial tax revenue increased 9.3 percent over the previous year, and the revenue from industrial enterprises increased 4 percent over the previous year.

The annual financial expenditures were 6.8 billion yuan, 95.7 percent of the annual budget, up 2.2 percent over the previous year. Of this, the expenditures on funds for urban infrastructure facilities maintenance rose by 9.2 percent, 95.7 percent

of the annual budget, expenditures on funds for cultural, educational, and public health work rose 3.9 percent, 95.1 percent of the annual budget, of which the funds for educational undertakings increased 14.8 percent, funds for tapping the potential of enterprises and for enterprise transformation was 580 million yuan, up 3.5 percent, or 91.4 percent of the annual budget. All sorts of allowances totalled 4.43 billion yuan during the year, a decline of 50 million yuan, showing a decline for two successive years.

By the end of 1991, all banks across the municipality had total savings deposits of 113.69 billion yuan, an increase of 24.2 billion yuan over the beginning of the year. Various types of bank loans totalled 66.03 billion yuan, an increase of 8.76 billion yuan over the beginning of the year. During the year, we withdrew 2.31 billion yuan from circulation, an increase of 1.2 billion yuan, or 110 percent, over the previous year.

In 1991, the insurance business continued to develop. In the entire year, insurance companies gained 640 million yuan in premiums, an increase of 19.3 percent over the previous year, underwrote 148.8 billion yuan worth of risk-taking policies, and paid 120 million yuan in indemnities, of which, 11 million yuan was paid to farmers, thus contributing to sending disaster relief to the northern mountain areas and reaping a bumper harvest in agriculture.

9. Science and Technology, Education, and Culture

The reform of scientific and technological systems continued to be deepened, and great gains were achieved in scientific and technological work. As the primary productive forces, science and technology were playing an increasingly important role in Beijing's economic development. In 1991, the municipality completed 4,200 scientific research tasks, 3,800 of which were popularized and applied to develop the economy, yielding relatively good social and economic benefits. For instance, the scientific research institute run by the municipality conscientiously implemented the contract responsibility system of "ensuring the delivery of financial revenues to the state, ensuring technological transformation, ensuring additional property value, and combining the total payroll with economic efficiency"; undertook 2,764 scientific research projects and popularized and transferred 850 scientific and technological research achievements, and produced some 700 million yuan in social and economic benefits. By the end of 1991, the municipality established 11 high technology laboratories and conducted joint research programs at the state and municipal levels for solving some 100 scientific and technological problems. In 1991, the scientific and technological front did much work by closely focusing on invigorating large and medium-sized enterprises and promoting economic construction. All professions and trades in the municipality signed 1,662 contracts on scientific and technological cooperation with Beijing's scientific research institutes, thus playing a positive role in extricating enterprises from difficulties. Suburban areas completed the research of 91 advanced and applicable technologies serving agriculture covered by the "Spark Plan." By the end of 1991, more than 90 percent of townships in the municipality established their scientific and technological commissions.

Educational undertakings continued to develop, and the "law on compulsory education" was implemented comprehensively. In 1991, the municipality had a total of 67 institutions of higher learning, with a total student enrollment of 137,000, with 38,000 graduates. These institutions also took in 2,949 graduate students studying for doctorate degrees and 14,000 graduate students studying for masters degrees. There were 118 secondary specialized schools in the municipality, with a total student enrollment of 56,000; and 176 vocational (agricultural) schools, with a total enrollment of 48,000. Ordinary senior middle schools in the municipality had a total student enrollment of 92,000. The ratio between the enrollment of secondary specialized schools, technical schools, and vocational (agricultural) schools and the enrollment of ordinary senior middle schools was 1.58 to 1. There were 340,000 students studying in junior middle schools, and 1.01 million students studying in primary schools. All kinds of higher education courses for adults were also developed. The adult higher educational schools enrolled a total of 54,000 students and cultivated a total of 33,000 graduates.

In 1991, there were 1,216 film-projection units, 43 art-performance groups, 22 cultural centers, and 23 public libraries throughout the municipality. There were a total of eight local publishing houses, publishing 32.709 million copies of magazines, up 1 percent over the previous year, and 603 million copies of newspapers, up 7 percent. The coverage rate of radio broadcasting was 98 percent, of which, the coverage rate of the Beijing Broadcasting Station was 91 percent. The coverage rate of television broadcasting was 98 percent, of which, the coverage rate of the Beijing Television Station was 97.3 percent.

10. Public Health and Sports

New headway was made in public health undertakings, and the medical conditions for urban and rural residents continued to improve. By the end of 1991, there were 4,970 medical and public health clinics, of which 525 were urban and rural hospitals, 13 more than in the previous year. There were 114,300 health workers, 2,700 more than in the previous year; and 62,000 hospital beds, an increase of 3,000. In the municipality, for every 1,000 people, there were 4.9 doctors of traditional Chinese medicine and of Western medicine, an increase of .1 over the previous year; and for every 1,000 people there were six hospital beds, an increase of .2 over the previous year. The municipality completed the annual projects of newly building, rebuilding, and expanding a large number of various categories of medical institutions. Of these projects, the medical equipment of Beijing Hospital and the People's Hospital, which were covered by the state key plans, was well set up, and 600 patient beds in the Beijing Hospital have begun to accommodate patients. The municipal immunity plan has ensured the healthy growth of children throughout the municipality. The rate of inoculating with the four inoculations covered by the 1991 municipal immunity plan and jointly approved by the UN Children Foundation, the World Health Organization, and the Ministry of Public Health reached 98.7 percent.

The family planning work covered by the state basic policy drew great attention from various social circles, and the municipality enhanced the propaganda education in the

work, strictly conducted management over family planning, and gradually oriented the work onto the track of legal systems. The 1991 family planning rate reached 98.93 percent, a 2.41 percentage points increase over 1990; and the rate of one couple having one child reached 55.68 percent, a .45 percent increase over 1990.

The undertakings of physical culture and sports showed marked achievements. In 1991 the municipality's athletes won 126 medals in major national games, of which, 44.25 were gold medals and 36.25 were silver medals. They won 22 medals in major international games, of which, 12.5 were gold medals and seven were silver medals. An athlete broke the world record in one event, two athletes broke the Asian records in two events on three occasions, and 11 athletes broke the national records in nine events on 11 occasions. Mass activities of sports were developed along with the sports popularization activities. The number of athletes who joined in year-long sports training reached 1.2 million.

11. The People's Livelihood

At the end of 1991, the number of staff members and workers throughout the municipality reached 4.7 million, and their wages totalled 13.22 billion yuan, an 11.2 percent increase over 1990.

According to the sample investigation data of urban households, the per capita living income reached 2,040 yuan, a 14.2 percent increase over 1990 and a 2 percent actual increase excluding the factor of price hikes in living commodities. The per peasant income reached 1,422 yuan, a 9.6 percent increase over 1990 and a 5.4 percent actual increase excluding the factor of price hikes.

The volume of bank savings deposits made by both urban and rural areas increased on a large scale. At the end of 1991, the volume of savings deposits reached 29.85 billion yuan, a 31.7 percent increase over the figure at the beginning of the year. Of this volume, that of deposits made by urban residents reached 25.02 billion yuan, a 33.1 percent increase over the figure at the beginning of the year; and that of deposits made by peasants reached 4.83 billion yuan, a 25.2 percent increase over the figure at the beginning of the year.

The rebuilding of dangerous houses saw initial success. As of the end of 1991, of 37 regions with dangerous houses covered by the rebuilding plan, operations began in 27 regions. The municipality invested 1.3 billion yuan in the rebuilding plan in the year. About 500,000 square meters of rebuilt houses were constructed, and the great difficulty of 3,000 households whose per capita housing acreage was 2 square meters was resolved.

12. Population

According to the statistics compiled by the household register department, at the end of 1991 the municipality's number of registered residents reached 10.395 million, an increase of 73,000 residents over the figure at the beginning of 1991. Of this population, nonagricultural people totalled 6.484 million and agricultural people totalled 3.911 million. According to the sample investigation of population changes, the birth rate of permanent residents was 8.03 per thousand, a 4.98 percentage points decrease over 1990; the death rate was 5.82 per

thousand, a .01 permillage point increase over 1990; and the rate of natural growth was 2.21 per thousand, a 4.99 permillage points decrease over 1990.

Zou Jiahua Comments on Regional Economy

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[Article by Li Anding (2621 1344 1353): "Regional Economy: New Frame for China's Economy in the 1990's; Interview With Vice Premier Zou Jiahua"]

[Text] Beihai in Guangxi Province, China's southernmost open coastal city, abuts Southwest Asia and faces Southeast Asia like a brightly glittering pearl inlaid in the north end of the bay. One thousand years ago it was named the southern pearl of the Bohai Bay because it teemed with the precious gems. Today, it is treated with increased respect for its natural deep water harbor, flat white sand beaches, and even its air, which has a negative oxygen ion content 50 times that of the average city.

A day ago Zou Jiahua, vice premier of the State Council, and the leaders of Guangxi, Guizhou, Yunnan, Sichuan, Guangdong, and Hainan, together with those in charge of relevant sections of the State Council gathered in Beihai. They discussed an important, brand new topic in China's economic life—establishing regional economies: links mutually supporting the natural connection between the economy, resources and locational strengths.

The regional economy will no longer be an argument for scholars. It is a formal administrative level of planning in China with national social and economic organizations. Some provinces and areas of southwestern and southern China will be the first. Likewise, at the deepest levels of reforms to restructure the economic system, a slight move in one part may affect the situation as a whole. It is in planning structural reform that important steps are taken.

I accompanied Vice Premier Zou Jiahua on his inspection of Guangxi. I also attended meetings in Beihai where I had a chance to speak frequently with him about forming regional economies. What follows are notes from those interviews.

Question: As I understand it, China's national economic and social development always has been planned on two levels, the state and the province or region. National productive forces are solidified by the plans of each province. Discussions of the regional economy now involve new administrative levels. People may ask, is there any need for them, and what role will they play in promoting China's economic development?

Response: Development of regional economies is a major trend in contemporary international economic development. It also is a necessary requirement for China's economic development at the present stage. It is an important step that cannot be missed.

The national economy actually can be divided into two component parts: One part is the level of the state, with overall arrangements for development which the state bases on industrial policy and requirements for the growth of national strength. During the First Five-Year Plan, by

amassing national strength we undertook 156 major projects, making an initial change to old China's situation which clearly was characterized as a colonial economy. The three lines of the 1960s moved production capacity to the interior. The last decade or so of reform and opening to the outside world has meant new readjustments to the economy and determination of a tiered development strategy for eastern, western, and central China. Arrangements in the past 10 years or so have been a continuation, bringing into play the overall superiority of the socialist economy. A complete and full economic system has been initially formed.

The regional economy is the other component part. Each has its own characteristics. When economies of scale still were relatively small and growth in levels of productive forces low, the state effectively guided the development of regional economies with local economic plans for each province. But once provinces and regions have economies of a certain scale and the economic model changes from a product economy to a planned commodity economy regulated by the market, local fiscal resources grow and people begin to consider their own development. Commodity markets far surpass provincial borders. Continuous adherence to old ways obviously will no longer do.

In the 1950's and 1960's we had some large coordinated regions, although they mainly were delineated by geographical position and administrative areas. It was difficult to consider arranging productive forces and joint coordination according to the principles of a mutually supporting economy, geography, and development strengths. In the 1980's China's creation of the open system of SEZ's plus open coastal cities and regions meant a leap for the economy of eastern coastal China. This attracted global attention. Our present discussion of regional economies is intended to extend open eastern China's superior position to the south and west and unite it together with the economic and technological base and resource superiority of inland China. China's economic vitality shall be enhanced by a line of thinking of economic ties and opening up channels abroad starting out with relatively large scale economic plans for large areas, each of which differ. Doing so also means implementing Comrade Deng Xiaoping's important tasks in China's plans: giving greater weight to reform and opening to the outside, and accelerating the actual steps of economic development.

Question: In the past few years, during talks with the leaders of some inland provinces I discovered that they all have a feeling of having lost out compared to the openness of the coast. They hope the state will give them more consideration. Creation of the regional economy can be regarded as a sound strategy with the inland and coast mutually supporting each other's dominant strengths on a path of joint development. What actual arrangements do state planning sectors have for delineating national economic regions?

Response: Beginning with regional plans for some provinces and regions of southwestern and southern China, the relevant sectors of the State Council together with the concerned provinces, regions and cities must study seriously the following regional economy development plans: One, the Yangtze River coast starting from Shanghai's Pudong area.

Two, the Pearl River delta area. While inspecting it Comrade Deng Xiaoping suggested that Guangdong catch up with Asia's "four little dragons" in two decades. This is an important strategic need. Three, the area surrounding the Bohai Sea, including Beijing, Tianjin, Hebei, Shandong, and Liaoning. Four, some provinces and regions in southwestern and southern China. Five, the northwest. Six, the central plains. Seven, the northeast. In this way the inner hinterland will be organically united with the coast. The strengths of each will support each other by joining central and western provinces and regions with the coast, near-coast, and riverside provinces and regions. In the 1990's, the cohesion and strength of these seven large economic regions will constitute a new frame for China's economic growth and opening to the outside world.

Taking China's present study plans for southwestern and southern provinces and regions as examples, the total population is 230 million in an area of 1.5 million square kilometers, of which, the three provinces of Yunnan, Guizhou, and Sichuan are among China's most abundant resource areas. They account for 46 percent of the state's hydropower resources. They also have abundant natural gas, coal, and various mineral resources, plus a full array of product types. However, these provinces are typical inland provinces in that resource development levels are low and processing industry growth is restricted. Hainan, western Guangdong, and coastal Guangxi have an obvious locational superiority. In particular, Beihai, Qinzhou, and Fangcheng in northern Guangxi are an important hub facing southeast Asia and abutting southwestern Asia to the north. Once the Nanjing-Kunming railroad and a group of deepwater berths are built, the area will become the closest place to put to sea in southwestern inland China. To expand mutual support and make overall regional strengths develop more fully and effectively. Destroy former administrative divisions. Plan overall for provinces and regions in southwestern and southern China. Determine dominant products, industrial groups, and overall arrangements for regional development of energy resources, transportation, communications, and major raw materials. Bring out plans for horizontal regional economic unity and coordination.

Question: It appears that in the 1990's the regional economy will have a decisive role in China's economic structure. What new features do today's plans offer from the perspectives of accelerating reform and opening to the outside world?

Response: I believe that general policies may be summed up this way: Overall planning, joint coordination, mutual support for strengths, mutual benefits, bringing to the inland what is introduced from abroad, division and unity, market orientation, and joint development. Concretely, attention must be paid to three new aspects of the planning process.

One, securely establish a market perspective. In planning the regional economy, we cannot limit consideration to production and development scales. We must do market research, foster markets, and perfect market mechanisms. We would be blind if we only stress the production stage. Without markets, if overstocked products are warehoused after production this will both slow down the pace and cause problems. On the

other hand, it is not a problem if production and development speed up, products have sales markets, there is demand, and production, sales, circulation, and financing constitute a good circle.

Market research requires studies of both the domestic and international markets. Striving to open the international market has been a successful strategy of the "four little dragons." An important reason why the economies of the SEZ's and Guangdong Province developed quickly is they have gone on the international market. At present, the market for products of Guangdong is three-thirds, with one-third each sold abroad, outside Guangdong, and in Guangdong. China's economy is no longer closed. It already has a considerable relationship with the international market. Some provinces and regions in southwestern and southern China, and Yunnan and Guangxi, border on or are adjacent to several southeast Asian countries, while Hainan and western Guangdong are close to southeast Asia. With a population of over 400 million, southeast Asia is a huge potential market. Linking southwestern and southern China with the coastal or near-coastal provinces and areas would constitute a great economic force to enter the southeast Asian market. Considering the domestic market, each province and region has strengths and weaknesses. Economic growth will be greatly curtailed if markets are confined to provincial or regional borders. For example, the population of Hainan is only over six million, so the market capacity there is very limited. However, the entire region has a population of 230 million. If the doors are thrown open and each province and region is linked together, mutual assistance will be enhanced, markets opened, and economic growth potential more fully developed.

Two, fully develop relative regional strengths. If we insist on developing hot industries instead of relying on our own dominant strengths they will lack competitiveness and ultimately be weeded out in a roundabout way, wasting resources and time. We have learned many lessons on this score.

It should be said that because of historical factors and natural conditions, some provinces and regions of southwestern and southern China have rather low economic, technological, and social development levels. Transportation is backward, information does not flow, and some places are of karst topography so farming conditions are poor. Nonetheless, there still are clear regional dominant strengths, including, locational superiority. The entire region has a more than 5,000 km of land route border with an equal amount of coastline. Via the Sino-Vietnamese and Sino-Burmese land routes and the closest sea route to southeast Asia from the northern bay, the entire region can constitute a good environment for opening to the outside world. There are a wide variety of climates in the area and plentiful sunshine. It has agricultural and forestry resources seldom seen in China and in particular, superiority in terms of tropical and subtropical plant resources. The area encompasses the rich hydropower resources of the Jinsha Jiang, Lancang Jiang, Hongshui He, and Yalong Jiang rivers. Coal and nonferrous metal reserves are abundant. The remote industrial base and technological strength have created conditions for developing electro-mechanic and new high-technology industries. Relatively low

labor costs are another important strength. In addition, 32 nationalities live here. Unique customs and beautiful natural scenery mean ample tourism resource strength. These six superiorities are the trump card of the region, the hub to link it together.

Three, enhance coordination, energetically develop inter-provincial and interregional horizontal relations. Joint coordination is the key to whether regional plans can be well arranged and effectively implemented. Any project that can be jointly developed and constructed must not be undertaken by separate provinces and regions. Only then can forces be joined to increase the competitiveness of the region overall and avoid a good deal of repeated efforts.

Joint coordination can take many forms. For example, mutual shareholding, coops, producer conglomerates, or regional cooperation based on enterprises or centered around projects. We must take a more positive attitude and use flexible methods to expand areas for joint coordination. For example, further open inter-provincial and interregional cooperation in terms of materials, goods and capital. Establish a group of key enterprise blocs directly planned by the state.

We must formulate and perfect laws and regulations to protect joint cooperation and ensure true legal protection for the interests of all investors.

Question: What should the key of regional planning be with regard to national macroeconomic planning?

Response: Regional planning must be considered on a rather large scale to resolve some general issues fettering economic development and promote the strengths of regions as a whole.

First, we must give overall consideration to regional transportation and communication networks, particularly construction of trunk lines. This is the most pressing task for each province and region, one they cannot accomplish alone. Whether developing energy resources or raw materials, or opening more to the outside world and developing tourism, all require good transportation. In my inspections throughout China I have discovered a uniformity of opinion across the board on this point. In a manner of speaking, "build roads first if you want to get rich." The "roads" here is transportation, including open land and sea routes.

Next, we must have overall planning for joint development of regional energy resources and raw materials industries. It involves huge investments. We must forcefully advocate interregional joint development among provinces and regions to generate electricity and run raw materials industries. We must work according to commodity economy principles, use economic regulatory levers, organize comprehensively, raise funds from many sources, give output according to investment shares, encourage joint investments from within and without regions as well as overseas, and accelerate the pace of energy resource and raw material development.

We must plan overall for regions to open to the outside world using various even more flexible methods: sole proprietorships, joint ventures, international leasing, processing of client supplied materials, and compensatory trade. Expand imports and exports and international cooperation, in particular,

stress border trade as an important task. At the same time, we must enhance introductions inland from abroad, simultaneously establish externally oriented enterprises under various forms of ownership, and expand labor exports.

Whether formulating or implementing regional plans, we must bring into full play the initiative of both the central government and regions and consider implementation possibilities and conditions. Haste makes waste if we disregard conditions. Of course, we must all the more actively prepare and create conditions to carry on China's economic construction. As Comrade Deng Xiaoping says: "Go fast if you can."

SMALL-SCALE ENTERPRISES

Township Industries Aid National Industrialization

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[Article by Chen Naixing (7115 0035 6821), Xu Huoping (5171 0735 1627), and Wang Yanzhong (3769 1693 0022): "Township Industries as Engine of National Industrialization"]

[Excerpts]

1. Speed up the transformation of China's industrial structure

[Passages omitted] In the first 30 years of its existence, new China followed the traditional path of national industrialization emphasizing compulsory accumulation and the heavy and chemical industries. As a result, it succeeded in putting together a rather comprehensive lineup of industries and elevated the stature of industry in the national economy. All this, however, came with a price: agricultural backwardness, stunted growth in basic and light industries, and other deep-seated structural imbalances. During that period, industry accounted for a growing share of the gross value of industrial and agricultural output, rising from 43.1 percent in 1952 to 75.2 percent in 1978, with heavy industry making up a rising share of all industrial output value, from 35.5 percent to 56.01 percent. Nevertheless, the level of industrialization remained very low because of the three major setbacks in input-output between industries and between the city and the countryside, the absence of a market for light industry, the low level of urbanization, backward technological conditions in agricultural production, low agricultural productivity, widespread poverty among peasants, and weak links with the world economy.

Since China embarked on reform and opened itself to the outside world, its economy has entered a period of spectacular growth and rapid industrialization. During this period, the development of township and town enterprises has not only changed China's entire economic structure, but also powerfully expedited the transformation of the country's industrial structure, spurring China's shift from an agricultural-industrial nation to an industrial-agricultural one. The contribution of township and town enterprises to this change is enormous.

First, their output value has risen proportionally, and the structural change is striking. In 1980, township and town enterprises accounted for 10.3 percent of the nation's gross

value of industrial output. By 1990, the figure had jumped to 29.66 percent, almost equivalent to the country's total industrial output in 1983.

Second, there has been a diversification of investors as well as an increase in total investment volume. In 1984, the fixed assets of township and town enterprises were worth 45.41 billion yuan. By 1990, the value had climbed 3.2 fold to 190.71 billion yuan.

Third, increasing and substituting for market supply. The development of township and town enterprises has increased market supplies.

Fourth, increasing market capacity. The rise of township and town enterprises has stimulated the development and restructuring of urban industry by boosting demand. In 1990, raw coal consumption by township and town enterprises accounted for 14.28 percent of China's total raw coal output for that year: coke, 14.78 percent; petrol, 11.13 percent; diesel, 18.55 percent, and electric power, 10.22 percent. In addition, township and town enterprises rely on urban industry to supply large quantities of equipment, among other things.

Fifth, township and town enterprises have upgraded themselves structurally. In the early days, township and town enterprises were involved in the processing of agricultural byproducts and the making and repair of mineral products and farm tools. Over time, however, they have shifted to textile and machine manufacturing, with some taking the first steps into the high-tech field.

Sixth, expanding exports and opening up the international market. In 1980 township industries almost had no exports. In 1990 they exported 48.56 billion yuan worth of merchandise, 23.7 percent of the nation's total exports.

The next decade is a critical period in the development of the Chinese economy. By the year 2000 the entire population will have achieved a relatively comfortable standard of living. In the course of this transformation, township industries will play an even more significant role in the economy, making even bigger contribution and giving industry a new look.

What really impedes industrialization and modernization in China is the countryside. Without developing township industries and modernizing the countryside, there is no way China can achieve a relatively comfortable standard of living for its people and accomplishing industrialization. Even as we energetically support and encourage the development of township enterprises, therefore, we must rethink the structural mix of township industries, instead of confining them to the processing of agricultural byproducts and expecting them to merely provide services to the agricultural sector. The structural convergence between urban industry and rural industry also must be reexamined. In some ways, such a convergence is both inevitable and rational and must be recognized as such if we are to work out a correct response.

2. Important Means To Increase the Rate of Industrial Participation

To increase the rate of industrial participation means increasing the share of the social labor force that is engaged in

industry. It is a key barometer of the extent of industrialization and is in effect tied up with the transfer of agricultural manpower in the course of industrialization. And the development of township industries has become a major vehicle for the de-agriculturalization of the labor force.

The transfer of agricultural manpower is a key problem facing developing nations. The proportion of its agricultural population is leading indicator of a nation's level of social and economic development. Since the 1980's, agricultural population has accounted for just 2 to 10 percent of the population of some developed nations, but between 40 and 60 percent in the case of developing nations. In contrast, China tops the world in the size of its agricultural population, both absolutely and relatively. China's huge population base and its steady growth constitute an ample labor resource but also complicates the transfer of rural manpower. The urban-rural schism and the course of state industrialization in which capital replaces labor have diminished the ability to provide jobs. The upshot is that large numbers of surplus rural workers are crowded on small plot of land for years, widening the gap between an enormous population and meager land resources.

China's own practical experience in industrialization shows that the traditional road to socialist industrialization does not work. China embarked on industrialization from a low economic base. Because of its vast peasant population, there is a gap between the number of nonagricultural jobs available and the magnitude of the agricultural labor force that needs to be transferred. Hence the slow pace of such transfer. Furthermore, China has very limited land resources. As agricultural mechanization increases steadily even as the population continues to rise, the surplus rural labor force will become larger and larger. In the 29 years before 1949 and 1978, the ratio between the nation's agricultural output value and industrial output value fell from 7:3 to 2.8:7.2. In 1949, the rural labor force made up 88 percent of the nation's total labor force. By 1978, its share had dropped 11.7 percentage points only to 76.3 percent, a mere 0.45 percentage point annually on the average. Absolutely speaking, the rural labor force rose from 180 million in 1952 to 310 million in 1978, of whom only 28 million were engaged in nonagricultural occupations, a mere 9.3 percent of the total rural social labor force. It is the development of township and town enterprises that first began to transform this state of affairs. Between 1978 and 1989, employment in township and town enterprises rose from 17,344,000 to 56,241,000. If we add employment in other areas of township and town enterprises, the total number of employees would be 93,669,000, a 2.3-fold increase, almost equal to the number of workers in all units owned by the whole people that year, 22.9 percent of the entire rural labor force and about half of the surplus rural labor force. [passages omitted]

In the next 10 years township and town enterprises may provide 5 million additional jobs each year despite rising investment in the organic component of township and town enterprises and a slackening pace of development. If that really comes to pass, the employment of township and town enterprises will reach 150 million or so by the year 2000, between 20 and 25 percent of all employment in society and

between 35 and 40 percent of the rural labor force. Meanwhile, owing to urban economic structural reform and the expansion of urban industry, more and more rural workers will move to the city. In particular, a host of small towns fueled by the growth of township and town enterprises will provide peasants with a substantial number of employment opportunities. Given those circumstances, both the agricultural population and the rural population will decline further. By the end of the century, the urban and rural population and employment structure will have undergone drastic changes. By then the rural population will be 900 million, including an agricultural population of 400 million, less than 50 percent of the entire rural population, and about 30 percent of the nation's total population. The growing share of the rural nonagricultural sector and its rising employment will give the nation's population structure and employment structure a "tripartite" look, with urban industry, rural non-agricultural industry, and agriculture providing jobs in the following proportion: 3.5:3.5:3. That way China's agricultural social structure, which has lasted thousands of years, will slowly be replaced by an industrial social structure with the basic features of an industrial society.

3. Concentration of Township and Town Enterprises—Small Towns—Urbanization

In the course of industrialization, the transfer of agricultural manpower is closely related to a rise in the urbanization of the population. In the 20 years between 1950 and 1970, the urban population worldwide almost doubled in number, from 706 million to 1.4 billion, rising from 28.6 percent of the global population to 38.6 percent. By the early 1980's, that proportion had risen to 40 percent. In 1980, urban areas accounted for a mere 0.3 percent of all land surfaces on Earth but were home to 41 percent of its population, rising to 50 percent by the end of this century according to some projections. (Footnote 1) ("Socialist Urban Demographics," *Zhongguo Caijing Chubanshe*, 1986, p. 57) (Footnote 1) The level of urbanization in a nation is a measure of the degree of its economic and social development. Given the same land area and similar natural resources, the more industrially and commercially developed a nation is, the higher its level of urbanization, and vice versa. In 1980, 70.9 percent of the population in developed areas in the world were urbanized, compared to only 30.1 percent in developing areas. (Footnote 2) (See *World Economy*, No. 7, 1989, p. 80) Today, over 75 percent of the population of most developed nations are urbanized whereas only 10 percent of the population in the 28 most underdeveloped nations of the world are urbanized (Footnote 3) (See *China Statistical Yearbook*, 1991)

Relative to its level of economic development, China is lagging in urbanization. It is true that Chinese cities themselves are quite backward, but the "economic dualism" between the city and the countryside remains striking. The urban management system has only made it harder to synchronize the pace of urbanization with the rate of economic growth. In 1990, the ratio between the total industrial and agricultural output value was 75.7:24.3. Yet the ratio between the urban population and rural population was 26.41:73.59. The socialist modernization of China cannot be accomplished when the countryside remains backward and the bulk

of the population continue to live in rural areas. We must raise the level of urbanization steadily even as we end the economic dualism between the city and the countryside by accelerating the development of the rural economy. If urbanization in China reaches 50 percent by the end of the century, projected to be the world's average urbanization rate by that time, its urban population will be 650 million, assuming a national population of 1.3 billion in 2000, almost 350 million more than in 1990, about 250 million of whom needs to be relocated from the countryside to cities. (Footnote 4) (The figure of 50 percent is basically consistent with the urban population structure necessary for achieving industrialization.) The only way we can meet this goal is to make the most of township and town enterprises.

The law governing urbanization worldwide is universal, but there may be different ways of achieving urbanization. In China, the existing large cities and metropolises are already laboring under so much population and economic pressures that they can no longer accommodate rural migration on any significant scale. The only option open to us is to make an all-out effort to develop small towns even as we develop small- and medium-sized cities as appropriate. Through the development of township and town enterprises and the acceleration of the construction of small towns, we can build up an urban system unique to China that is centered on a large city, that features a network of small- and medium-sized cities, and that is blanketed by small towns. There are almost 2,000 county towns and close to 70,000 townships in China. If each county town increases its population by 50,000 each year, between them they can accommodate 100 million people. Of the 70,000 townships in China, if 15,000 can develop into small towns capable of accommodating 10,000 people each, that will take care of another 150 million people. This is a realistic and effective way to increase the extent of urbanization in the nation.

The building of small towns is also what the further development of township and town enterprises requires. By concentrating township and town enterprises in small towns, not only will we conserve land resources and facilitate management, but we will also be able to do a better job in the utilization of labor resources. Assuming that township and town enterprises will have a combined work force of 150 million people by the year 2000, we are actually talking about 300 million people or so if their family members are included. Suppose 80 percent of them or 250 million can be concentrated in small towns. A "critical mass" effect will then come into play: Channels of employment will be broadened, more people would be placed in jobs, a variety of hidden unemployed people previously scattered all over the countryside will be put to full use, new rural industries will be fostered, and the transformation of the rural industrial structure will be expedited.

The development of township and town enterprises makes possible the construction of small towns even as it places demands on it. In the past decade, township and town enterprises have invested heavily to develop small towns. Of all investments by township and town enterprises in aid of a variety of projects in the countryside, about 50 percent are estimated to have been spent on the construction of small

towns. If that was the case, township and town enterprises invested over 20 billion yuan in such construction during the Seventh Five-Year Plan alone, money that has gone some way toward meeting the needs of small towns in road construction, lighting, water supply and sewage, and the planting of trees. If 15,000 townships can be developed into small towns with 10,000 people each by the end of the century, and if transportation, water supply, medical, educational, entertainment, and commercial facilities are all put in place, we will drastically alter the backward look of the Chinese countryside and the major objective that the Communists have struggled for—eliminating urban-rural differences—will have been largely accomplished.

4. Making Agricultural Production More Intensive

[passages omitted] Intensive agriculture necessarily requires more investment in agriculture. It requires the application of science and technology and the use of advanced equipment on a large scale. It also demands that the organic component of agricultural funds be raised. In some developed nations today, the organic component of agricultural assets has reached a fairly high level, with the agricultural worker better equipped with technology than his industrial counterpart. In 1975, capital investment in the typical American farm worker was \$98,000, compared to just \$55,000 in industry. By the mid-1980's, the labor costs of the typical American farm accounted for just 13 percent of total costs; agriculture has become a capital-intensive industry. (Footnote 5) ("U.S. Economy and Government Policy," *Shijie Zhishi Chubanshe*, 1988, p. 27) In contrast, the capacity of Chinese agriculture for investment is very limited. In the 30 years before 1978, a highly centralized planning system and the urban-rural divide combined to limit the movement of capital goods between the city and the countryside. An enormous amount of agricultural value was transferred to industry in the form of price scissors between industrial and agricultural products. Moreover, direct state investment in agriculture was meager. Between 1950 and 1978, the net outflow of agricultural national income averaged 155 million yuan after deducting state investment, or at a rate of 18.2 percent (net outflow as a percentage of national income.) (Footnote 6) ("Studies on Distribution Relations between the State and the Peasant," by Cong An Ni Su Ming [1783 1344 1200 5685 2494], *Zhongguo Nongye Jingji Chubanshe*, 1991 No. 8.)

After China embarked on reform and the open policy, adjusting the prices of industrial and agricultural products, capital goods began to travel between the city and the countryside and agricultural accumulation started to drop. Particularly following the development of township and town enterprises, there has been a huge inflow of funds into agriculture, investment that can take an array of forms, in contrast to the past when agriculture was a net contributor of funds to industrialization. The change has been effected in the following ways. First, township and town enterprises acquire agricultural resources on the market. Price scissors are insignificant in the exchange of industrial products for agricultural products through township and town enterprises. Moreover, profits are plowed back into agriculture indirectly through the enterprises. Second, direct investment in agriculture by township and town enterprises as part of industry

aiding and supporting agriculture amounted to 27 billion yuan in the Seventh Five-Year Plan alone, more if investment in the Sixth Five-Year Plan is included. Third, peasants' earnings in the form of wages have been boosted. During the decade of reform, over half of the peasants' net earnings came from township and town enterprises. The combined payroll of township and town enterprises nationwide in 1990 alone managed to raise per capita income in every village by 120 yuan. Fourth, township and town enterprises have been supporting all sorts of rural projects. In the Seventh Five-Year Plan alone, such investment amounted to 45 billion yuan, equivalent to 53.8 percent of what the government spent to help agricultural production and on miscellaneous rural projects in the same period.

As township and town enterprises continue to grow in the next decade, they would be even better able to invest in the countryside directly and indirectly and the actual volume of investment also would go up. Direct and indirect investment in agriculture under the industry in aid of agriculture plan and through other channels may double to become a reliable funding source to bring about intensive agriculture.

To achieve intensive agriculture, we also need to open up a broad market. On the supply side, township and town enterprises provide agricultural production with a large quantity of agricultural machinery, chemical fertilizers, pesticides, modern fuels and energy, as well as small- and medium-sized farm tools, making possible an improvement in the instruments of labor and the level of technology in agriculture and creating material preconditions for intensive agriculture. In 1990 township and town enterprises nationwide had a combined electric energy output of 13.51 billion kilowatt-hours, equivalent to 16 percent of the total electric energy consumption by agriculture that year. In 1989, township and town enterprises had a combined coal output of 350 million tons, equivalent to 16 times the combined coal consumption of the agricultural, forestry, animal husbandry, fishery sectors as well as the irrigation industry for that year. In 1990 township and town enterprises had a combined chemical fertilizer output of 436,300 standard tons, equal to the total amount of chemical fertilizer consumed nationwide in the 1950's. Township and town enterprises also provide a large quantity of farm machinery parts and components as well as small- and medium-sized machines and assume almost sole responsibility for the repair and maintenance of all agricultural machinery. In 1990, the enterprises turned out 842 million pieces of small- and medium-sized farm tools, one for every man, woman, and child in the countryside. The enterprises' material supplies to agriculture are playing an increasingly essential role in spurring the shift of traditional agriculture toward intensive agriculture. On the demand side, the development of township and town enterprises has opened up the market for agricultural byproducts and demands that agricultural production continue to increase to provide them with even more agricultural byproducts. At both the supply end and the demand end, township and town enterprises stimulate the specialization, coordination, and socialization of agricultural production and expedite the opening up of an agriculture sector that used to be closed. Accordingly, it is imperative that our policies on township and town enterprises be consistent and stable. Under no circumstances are

they to be changed constantly and casually in order to ensure the steady and sustained development of township and town enterprises.

5. The Operating Mechanism of Township and Town Enterprises Will Become the Institutional Basis of Industrialization in China

Industrialization in China will inevitably require corresponding changes in the economic system. It will demand that the new economic system provide it with an appropriate macroeconomic climate and microeconomic base. The goal of economic structural reform in China is to create a planned socialist economy and put together a new economic operating mechanism on that basis. In this respect, the economic reform of the 1980's has been remarkably successful, its biggest achievement being the rural economy, including its township and town enterprises. Township and town enterprises and their operating mechanism have become the most crucial part of the new order. In 1990 the combined output value of collective enterprises accounted for three-quarters of the output value of all township and town enterprises and almost 60 percent of their total number of employees. The operating mechanism of China's township and town enterprises, it may be said, successfully embodies the characteristics of the socialist planned commodity economy and realizes the compatibility between public ownership and market regulation.

Ever since their inception, township and town enterprises have shown a natural affinity for the market, both their supply and their demand being realized through the market. The funds and raw materials they need as well as their production equipment and labor force are not supplied through the state planning process. Instead the enterprises raise their own funds, secure their own raw materials, assemble their own workers, hire their own qualified personnel, and sell their output on their own. Enjoying a greater measure of autonomy in their operations, they can decide by themselves how to distribute their incomes and to increase accumulation and expand reproduction. The managerial role of the departments in charge is limited to policy coordination, information transmission, technical consulting, employee training, and legal supervision. This kind of management lives up to the spirit that management is service. Moreover the development plan and production and operations plan drawn up by the departments in charge are of a guiding nature and do not intervene in the enterprise's operations and activities. All that enables the enterprise to appear as an independent commodity producer on the market, totally different from its state-owned counterpart. There is room for improvement in the management of township and town enterprises: it is not totally satisfactory and does not meet all the needs of their development. Be that as it may, it satisfies most of the demands of commodity production management and meets the basic requirements of China's economic structural reform.

But it is the thorough application of the principle that the superior wins and the inferior loses that is the most distinctive characteristic of the market mechanism of township and town enterprises. Township and town enterprises are responsible for their own profits and losses and take risks on their

own. Those which are well-managed prosper, others which are mismanaged will go bankrupt. This merciless law results in a high failure rate of 10 percent among such enterprises. The law that the superior wins and the inferior loses makes it only natural for the scale of enterprises to grow through the movement and concentration of capital goods. While the number of industrial enterprises at the village and township levels in the nation dropped in 1987, they still hired 3.9 percent more workers than the preceding year.

The operation of the market mechanism and the fortunes of township and town enterprises are directly related to the peasants' vital interests. The market mechanism is a fairly good operating mechanism for the enterprise. A flexible production and operating strategy that adapts to the ever-changing market, full emphasis on economic results, a push for a new employment system and a merit-based cadre system, and a diversification of funding sources and investors—all that explains why township and town enterprises are booming with vigor. [passage omitted]

AGRICULTURE

QIUSHI on Building New Modern Pastoral Areas

HA2200040792 *Building QIUSHI in China*
No. 6, 16 Mar 92 pp. 24-28

[Article by Bu He (1580 6378), chairman of Inner Mongolian Autonomous Region, "Develop Modern Animal Husbandry, Build New Socialist Pastoral Area"]

[Text] Developing modern animal husbandry and building new socialist pastoral areas with Chinese characteristics are strategic goals for building animal husbandry and pastoral areas in the 1990's, a major subject for implementing the goal and task for the development of agriculture and rural work determined by the Eighth Plenary Session of the 13th CPC Central Committee, and also an important task for implementing the 10-Year Program and the Eighth Five-Year Plan, and for realizing the second-step strategic goal of the modernization of the national economy as a whole.

I.

Animal husbandry's economic status and role are extremely important. First, animal husbandry is an important economic branch for human beings to conduct material exchange with nature, and is indispensable to the improvement of people's food structure and the raising of the people's living standards. Crop farming is a process during which humans transform and store up solar energy by using green plants through labor. However, that part of the solar energy transformed and stored up in plants which can be used directly by people is very limited. And livestock and poultry can transform things in these resources which cannot be eaten and used by human being into meat, milk, eggs, leather, and fur that can be eaten or used. The protein content of food provided by animal husbandry is 70 percent higher than that of cereal food, and the nourishment is relatively comprehensive. Friedrich Engels pointed out: "The intermediate stage of the Barbarian Age started with the domestication of animals which supplied milk and meat." "the cultivation of cereals was first caused by the need for livestock feed, and it was only afterwards that

they become an important source of human food" (*Selected Works of Marx and Engels*, Vol 4, pp 20, 21). The most basic means of food for humans comes from two major branches of material production, crop farming and the breeding industry, and they both constitute the basis of human survival and development. Therefore, as an important component of the national economy, agriculture includes both crop farming and animal husbandry, which are of equal importance in the national economy, and neither can be dispensed with. Second, animal husbandry is the principal industry which dozens of China's ethnic groups have been engaged in and relied on for survival and development for generations. China's grasslands in pastoral areas amount to 4.7 billion mu, which accounts for one-third of China's territory. The number of cows and sheep on hand in pastoral and semipastoral areas accounts for about half of China's total. Large numbers of animal by-products are supplied to the state each year, vigorously supporting China's socialist construction. Third, animal husbandry is an important source of raw materials for light industry and export materials for foreign trade. The great majority of the raw materials for China's woollen textile, meat processing, leather, and dairy products industries and a part of the pharmaceutical industry come from animal husbandry. Animal husbandry in Inner Mongolia each year provides light, textile, and food industries with over 60,000 tonnes of wool, over 7 million pieces of cow and sheep skin, and 300,000 tonnes of fresh milk. Now the output value of processing industries with animal by-products as raw materials amounts to 2 billion yuan in the region, accounting for 58 percent of the output value of light and textile industries.

Developing modern animal husbandry and building new socialist pastoral areas with Chinese characteristics are the objective requirements for the economic and social development in pastoral areas. For over 40 years, our party has made great achievements in leading the broad masses of herdsmen in socialist revolution and construction, and has brought benefits to the masses of herdsmen in various fields. They have closely linked their own destiny with the cause of socialist construction. Inner Mongolia is the minority nationality autonomous region earliest founded in China. Over the past 40 years, earth-shaking changes have taken place in various fields in the region. Especially since the Third Plenary Session of the 11th CPC Central Committee, through reform and opening to the outside world, there have been more profound changes in the pastoral areas' economic and social features. There have been bumper harvests for seven years running in animal husbandry. The region's total number of livestock amounts to 55.68 million, and secondary and tertiary industries have developed rapidly. The industrial output value of the 24 stock-raising banners has surpassed that from stock raising, energy, communications, telecommunication, education, public health, broadcast television, and other parts of the infrastructure, and various social undertakings have developed. However, taken as a whole, the pastoral areas' economy, especially animal husbandry, remains very weak. Compared with cities and agricultural areas, the economic development and social progress in the pastoral areas relatively backward. The major manifestations are that the grasslands and pastures are seriously degenerated and have

turned sandy, resulting in an acute contradiction between livestock and forage and grass. They are weak in fighting natural calamities, and have not freed themselves from the passive situation of relying on the heavens to raise livestock, which are "strong in summer, rich in autumn, thin in winter, and dead in spring." The pastoral areas remain weak in the construction of water conservancy, grass industry, communications, energy, and other infrastructure projects. The level of market growth is low, and social services before, during, and after production unsound. Such a situation has seriously impeded animal husbandry production and the further development of economic construction in the pastoral areas. Marxism believes that poverty and backwardness are not characteristics of socialism. It is a fundamental task for socialist revolution and construction to vigorously develop the productive forces, and gradually minimize various kinds of differences left over by history, including regional differences. During the 1990's, an extremely crucial period for building socialism with Chinese characteristics, we should clearly set forward the goal of developing modern animal husbandry and building new socialist pastoral areas, and organize and lead the broad mass of the herdsmen to quicken the economic construction pace around the center of vigorous developing the productive forces and take the road of common prosperity.

II

It is a great undertaking of opening up the future and an arduous and complicated systems engineering project to develop modern animal husbandry and build new socialist pastoral areas with Chinese characteristics. Since the 1980's, practice and experiences in pastoral area work have proved that reform is a huge propelling force of development. Further deepening the reform and fully developing the might of party policies are the key to further developing the productive forces and strengthening the motive force and vitality of economic and social development in the pastoral areas in the 1990's.

First, it is necessary to stabilize and improve the pastoral areas' production responsibility system with the "dual contract for grass and livestock" as the major content, and further improve the management system whereby unified management is combined with separate management. This is an important premise for protecting and mobilizing the initiative and creativity of the broad masses of herdsmen. The "dual contract for grass and livestock" responsibility system is a major pioneering effort of the region's broad masses of cadres and herdsmen to reform the old system of "everybody eating from the same big pot" since the Third Plenary Session of the 11th CPC Central Committee, and is an important result of reform in the pastoral areas. Such an operation system has great flexibility in the form, content, and degree of combining unified and separate management. It adapts to the characteristics of animal husbandry production, is capable of accommodating different development levels of the productive forces, and plays a great propelling role in developing animal husbandry. Marxism believes that it is ownership rather than mode of operations that determines the economic nature. Carrying out the "dual contract for grass and livestock" responsibility system and separating

the ownership from the operation right of grasslands and pastures do not change their collective ownership, but only transfer the right of operation to the herdsmen. Moreover, based on the characteristics that livestock are both labor objects and, more importantly, labor results, a policy is worked out under which livestock are turned over to households at fixed prices, and livestock are owned and raised by households, and the right to control the final results is given to the herdsmen. The "dual contract for grass and livestock" responsibility system has thoroughly overcome the abuses of over-centralization in operation and management and of egalitarianism in distribution under the old economic system, greatly mobilized the production enthusiasm of the broad masses of herdsmen, and emancipated social productive forces. It is by no means an expediency to solve the food and clothing problem. It should be laid down as a basic system for developing China's economy in pastoral areas, and should be constantly substantiated and improved. There should be no hesitation or wavering about it. It is a prerequisite for deepening reform in pastoral areas. Moreover, it is necessary to further improve the management system whereby unified management is combined with separate management, and gradually expand the collective economic strength. We should proceed from practical situations, and actively find a way out for expanding developmental production. Local resources should be fully utilized to set up collective enterprises, such as small pastures, small forest farms, small animal by-products processing enterprises, and mining and building materials industries, to increase income from unified operations. It is necessary to manage and use well existing collective properties. It is necessary to keep under unified control various funds, such as money realized from the sales of assets at fixed prices, money retained from profits, and contract fees, as well as the existing basic installations, equipment, and other properties, and to bring into play their role in running social service undertakings. The method of setting up collective capital accounts at the *gaza* (village) level, placing them under unified supervision and control by *sumu* (township) collective properties management committee, which has been put into effect in Ulan Sumu, Urad Middle Banner, has been quite successful and can be used for reference in other localities.

Second, with the development of modernization of animal husbandry, operation on a family basis by herdsmen households will have more and pressing demands for socialized services. Various localities should proceed from practical situations, fully develop the service functions of *sumu* and *gaza* cooperative economic organizations, service organizations run by herdsmen themselves or jointly with other people, the state economic and technical departments, and various servicing economic entities. In recent years, some stock-raising banners have regarded strengthening the animal husbandry service system as a focal point in deepening reform in pastoral areas, and various levels of governments and departments have made concerted efforts in management, mobilized the initiative of various aspects, and initially developed a livestock improvement and epidemic prevention service system, a feed grass and feed stuffs growing and processing service system, and an animal by-products purchasing and marketing service system. They have provided

herdsmen with overall services before, during, and after production, and promoted the development of animal husbandry production. Socialized services have been brought up by the need for development of the productive forces, and it is necessary to uphold the principle of proceeding from practical situations, following in order and advancing step by step, and making steady development without practicing formalism.

Third, with the continuous development of the commodity economy in rural and pastoral areas, circulation and market occupy an ever prominent place. Circulation is the bridge and ties linking industry and agriculture with animal husbandry, cities with rural areas, and production with consumption. Only when circulation is enlivened can production and consumption be further expanded, and can economic development be promoted. Therefore, we should put production and circulation in equally important places, and regard stimulating animal husbandry circulation and building up and nurturing the socialist market system in pastoral areas as major strategic events. It is necessary to carry out, in accordance with the principle of combining planned economy with market regulation, the purchase and sales policy in which planned purchase and free operation are integrated, relax prices of animal by-products, and build up an animal by-products circulation system with multiple channels, levels, and sectors but fewer links. Supply and marketing cooperatives, foreign trade, and food departments at various levels should fully use the superiority of abundant funds and large numbers of shops over an extensive area. They should strengthen operation and management, actively participate in the purchase of animal by-products, make great efforts to transport industrial goods to the countryside, and continue developing the role of state-owned and cooperative commerce and the main channel. It is necessary, by deepening internal reform, to truly turn supply and marketing cooperatives into cooperative commercial organizations under herdsmen collective ownership and truly form economic interest communities with the herdsmen. It is necessary to encourage processing enterprises inside and outside the region to set up raw materials production bases in pastoral areas, and to encourage industrial enterprises to have direct exchanges with pastoral areas. We favor setting up a system integrating animal husbandry, industry and commerce and combining production, supply, and market, with trading and commercial departments serving as the dragon head, production places of animal by-products as the dragon tail, and processing enterprises as the dragon body. In recent years, the three circulation enterprises in our region's Ar Huijin Banner, namely, the supply and marketing cooperative, food company, and industry-trading company, have set up a series of processing systems of meat, wool, and leather and, with trading, industry, and animal husbandry supplementing each other, they have effectively solved the problem of difficulties selling animal by-products in the banner, improved the economic performance of animal husbandry, increased financial income, widened the input channel for animal husbandry production, and yielded very good economic results. In addition, it is also necessary to organize periodically or nonperiodically, country fairs or animal by-products specialized wholesale markets in market towns with the necessary

conditions, and in traditional animal by-products collecting and distributing towns and townships, to expand collection and distribution of animal by-products, and speed up their circulation. It is necessary to mobilize and organize forces from various quarters which participate in circulation to build warehouses and other infrastructure facilities and engage in transportation, sales, and processing.

III.

Productive forces are fundamental factors that determine social development. To build new socialist pastoral areas with Chinese characteristics, it is necessary to put improvement of production level in pastoral areas in a prominent place and grasp it as a central link.

First, it is necessary to vigorously step up the construction of grass industry in pastoral areas. This is the foothold and growing point for developing productive forces in pastoral areas, and realizing modernization of animal husbandry. The reproduction process of animal husbandry is the unity of botanical and zoological reproduction processes. Here, grass is primary production, and livestock secondary. Only when there is grass can we raise livestock and only when we increase the amount of grass can we increase the amount of livestock; therefore, grass is the foundation of animal husbandry. At present, the construction of grass industry in pastoral areas is incompatible with the need for developing animal husbandry, and compared with countries that have realized modernization of animal husbandry, China's gap lies mainly in grass industry. To realize the transformation of livestock breeding from reliance on the heavens to reliance on construction, it is necessary to place grass industry construction at the strategic plane of developing animal husbandry, control the serious situation of degeneration, desertification, and alkalinization of grasslands, and of rat pests, and overcome the contradiction between livestock and grass. There are 5.04 million mu of natural grasslands in Aohan Banner, and due to irrational utilization over a long time, the great majority of grasslands have become sandy, degenerated, and salinized, and moving dunes have been formed in some areas. Since the Third Plenary Session of the 11th CPC Central Committee, the herdsmen have actively developed artificial grasslands, planted large areas of grass by airplane, and have brought moving dunes and grasslands that have been degenerated and turned sandy under overall control. Now, the total acreage of artificial and aircraft planting amounts to over 1.5 million mu in the banner, with an annual output of 100 million kg of fine quality grass. We have basically met the feeding grass need for over 400,000 head of livestock in the banner, and changed the passive situation of relying on the heavens to raise stock. The method of running family pastures and building grass enclosures in Uxin Banner, which coordinates water conservation, grass, forestry, machinery, and feeding stuffs, is also an important way to develop the grass industry. This banner's natural conditions are worse, and the degree of grasslands and pastures turning sandy are even more serious than that in Aohan Banner. In the 1980's, with the control of sands and building of grasslands as prerequisites for developing animal husbandry, Uxin Banner succeeded in building 16,800 grass enclosures and 1,04 family-run pastures, thus basically overcoming the major contradiction between livestock and grass

that has restricted the production and development of animal husbandry for a long time. The building of the grass industry should be in line with local conditions and be given guidance according to different situations. In areas where natural conditions are good, emphasis should be laid on enclosures, improvements, and supplementary planting, and on stepping up the building of grass cutting and storage centers, in wild and desert areas, attention should be paid to building artificial grasslands where bushes and trees are integrated, and in areas where water sources are rich, stress should be put on building grass enclosures and family pastures. Vigorous efforts should be made in developing forage grass and feeding stuff processing industries, promoting and popularizing green and stored forage and ammoniated forage, and giving full play to the economic performance of existing resources of forage grass and feeding stuff.

To go in for grass industry, protection, management, and scientific utilization of grasslands should also be stressed. It is necessary to continue implementing the "Grasslands Law" and "Regulations on Managing Grasslands," and truly bring the management and protection of grasslands into the orbit of rule by law. Indiscriminate reclamation, reckless digging, careless harrowing, denudation, and other behavior destroying grasslands should resolutely be dealt with according to the law. Effective measures should also be taken to scientifically and rationally utilize grasslands. Judging from advanced experiences abroad, and from the results of practice in certain areas in Inner Mongolia, to carry out the policies of determining livestock by grass, proper grass for proper livestock, and dynamic equilibrium between grass and livestock are the foundation work for heightening the scientific management level of grasslands and for building modernized animal husbandry with sustained, stable, and high performance development. Various localities should popularize and try them out as soon as possible and get them finalized as a system.

Second, firmly grasp the building of education, science, and technology in pastoral areas, and gradually shift the development of animal husbandry onto the track of relying on scientific and technological progress and improving the laborers' quality. Since the 1980's, science and technology as primary productive forces have completely entered various fields before, during, and after the production of agriculture and animal husbandry, and are playing an ever greater role in heightening the productive forces. Production practice of animal husbandry in the region also shows that, to develop animal husbandry, it is necessary to rely first on policies and second on science and technology. If the rapid development of the region's animal husbandry in the 1980's was guided by correct policies, then in the 1990's and in the future, animal husbandry and economy in pastoral areas must mount new steps. Apart from further developing the might of policies, it is necessary to rely on advanced science and technology and scientific operation and management. To realize the growth of animal husbandry by science and technology, the key is to speed up the popularization of suitable scientific and technological results and improve the herdsmen's scientific and technological and cultural qualities. The example of Bayan Hohor Sumu, Dong Ujimqin Banner, can well explain the matter. In 1983, of the 788 herdsmen aged 13-40, more than

250 were illiterate. Later, vigorous efforts were made in popularizing scientific and technological knowledge, and raising the herdsmen's educational level, and great progress was made. The township became a sumu without illiterates, succeeded in training a group of pastoral technicians capable of mastering some new technological know-how, and energetically promoted the growth of production for animal husbandry. In 1990, the total income from animal husbandry in that sumu was 5.4 million yuan, and the herdsmen's net income increased from 227 yuan in 1979 to 3,050 yuan per capita. There is no poverty-stricken family among the herdsmen.

Third, make vigorous efforts in building the infrastructure in pastoral areas, and enhance the potential for animal husbandry's future development. Shortage of energy, poor transportation facilities, and backward telecommunications are several major factors presently restricting the economic construction, social progress, and development of productive forces in pastoral areas. For instance, a small number of banners and counties in pastoral areas still do not have electricity, and some banners and counties and most of the sumu and townships can only rely on diesel oil to generate electricity, small in energy and at high cost, directly affecting the residents' livelihoods in these towns and townships, and restricting the development of secondary and tertiary industries. In regard to energy construction in pastoral areas, it is necessary both to step up the building of the power transmission network and substations according to plan, and also pay attention to fully utilizing the pastoral areas' rich natural energy resources. Speed up the development and utilization of wind and solar energy, and strive to ensure that over 80 percent of the sumu have electricity by the end of the century. Plus the utilization of such new energy as wind and solar energy, over 95 percent of the herdsmen households can enjoy electricity. Moreover, importance should be attached to the construction of communications and telecommunications in pastoral areas. Efforts should be made to complete the major highway lines in pastoral areas during the Eighth Five-Year Plan period, and multiple forms of communications operations should be promoted. Step up highway construction in sumu and gaza in the forms of operations by the state, the collective, by herdsmen with government subsidies, by herdsmen jointly with other people, or by herdsmen themselves. Efforts should be made to ensure that by 2000 all townships are linked by highways, and there will be roads linking with the majority of villages, facilitating passenger and cargo transportation in pastoral areas. It is also necessary to solve as soon as possible the problems of postal and telephone services in pastoral areas and overcome difficulties in radio and television broadcasts. We should do all we can to ensure that by 2000, broadcast and television coverage will be up to over 90 percent.

"Suffering from drought nine out of 10 years" and water shortages are major factors restricting animal husbandry and the pastoral areas' economic development. Water conservancy occupies an extremely prominent place in the capital construction of pastoral areas, and we must concentrate all our forces to fight a war of emancipation in water conservancy. Water conservancy in pastoral areas not only serves animal husbandry, and what is even more important, it serves

industries in pastoral areas, town and township construction, and the whole society. Therefore, water conservancy is not only the lifeblood of animal husbandry, but also the lifeblood and foundation industry of the national economy as a whole in pastoral areas. In the economic construction in pastoral areas, water conservancy should be the industry for major and leading development, and in planning and arrangements, preferential investment measures should be taken toward water conservancy like energy and communications. In water conservancy investments, we should likewise pay attention to input and output, to depreciation, cost, and profits, step up operation and management, and gradually build up an operation and management system of water conservancy fixed assets centering around performance. In water conservancy construction, it is necessary to rely on the strength of the broad masses of herdsmen, and to encourage and guide them to increase input in water conservancy construction of grasslands and pastures.

Fourth, readjust the industrial structure of pastoral areas, and gradually realize the transformation from the structure of single-product economy to multiple structures, one major industry as the key link, several industries complementing each other, and overall development. At present, the economic structure in pastoral areas is of a single-product economy, and remains at a stage of providing primary products. Such single-product industrial structure and undeveloped social division of labor are the root cause for a low level of social productive forces in pastoral areas. Therefore, readjusting the pastoral areas' industrial structure is the pressing requirement for building new socialist pastoral areas. It is necessary to start with developing secondary and tertiary industries, such as mining, processing, and services, to expand social division of labor, and promote the development of the commodity economy in pastoral areas. Dong Ujimqin Banner used to be engaged purely in animal husbandry, and the original industrial foundation was very weak. Since 1986, supported by animal husbandry, the county has successively invested over 46 million yuan to build, expand, and transform 11 enterprises with animal-by-products processing industry as the key link. After several years of efforts, they have now basically built up a processing system for a series of animal by-products, such as leather, fur, milk, meat, bones, and blood, and have embarked on a road of promoting industry by animal husbandry, complementing animal husbandry by industry, industry-animal husbandry integration, and overall development. They have thus quickened the transformation of animal husbandry from natural economy to commodity economy, enhanced local economic strength, and heightened the rate of financial self-support. In 1990, the banner's income increased over four times compared with 1985, of which 60 percent came from animal by-products processing and mining industries, and the rate of financial self-support increased from 29.8 percent in 1984 to 75.8 percent in 1990. Urad Rear Banner was the most poverty-stricken place in Bayannur League in the past, and through development and utilization of underground resources of local copper, sulphur, and iron mines, great changes have taken place in its financial condition. The experiences of these two banners and counties show that to speed up modernization of pastoral areas, while paying attention to the

foundation industry of animal husbandry, it is necessary to readjust the industrial structure. In this respect, we must carry out the principle of concerted efforts by the state, the collectives, and the individuals; base ourselves on local resources, aim at market demand, rely on the broad masses of the herdsmen, and energetically build various kinds of town and township enterprises which require less investment, and yield quick results and high performance.

We believe that under the guidance of the spirit of the Eighth Plenary Session of the 13th CPC Central Committee, with the intensive development of reforms in pastoral areas and the constant progress of various construction undertakings, a new situation will appear in animal husbandry and in the work in pastoral areas, the broad masses of the herdsmen will surely stride into the 21st century with a new posture of unity, progress, civilization, and prosperity.

Minister on Agriculture, Rural Work

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[Article by Liu Zhongyi (0491 0022 0001), vice minister of the State Planning Commission: "Current Issues in Agriculture and Rural Work"]

[Text] I. An Assessment of China's Current Agricultural Situation

As far as agricultural output and rural work were concerned, 1991 was an extraordinary year. With the proper leadership of the CPC Central Committee and the State Council, we achieved encouraging agricultural development and reform successes. Despite having to fight natural disasters, we still reaped a record-setting bumper harvest for the second year in a row. As to reform, we summed up our achievements and made improvements, which were reflected in a concentrated way in the "Recommendations" of the Seventh Plenary Session and the "Resolutions" of the Eighth Plenary Session.

In light of our successive years of bumper harvests and 1991's bumper harvest despite natural disasters, how should we assess our basic agricultural situation? What level has our agricultural output actually reached? I would like to make the following points: 1) China's agricultural base is generally somewhat stronger, our overall agricultural productive forces are definitely improved, and our basic production conditions and ability to resist natural disasters are somewhat enhanced. 2) Our basic policy of the responsibility system, mainly the linking of remuneration to output by household, is stable. The stability of our policy and public feeling is a very key factor in the good state of our agriculture and rural economy. 3) Our understanding of the guiding policy that agriculture is our foundation is clearer and deeper. Party committees and governments at all levels are continuing to enhance their leadership of agriculture, and the concerned sectors have further reinforced the idea of serving agriculture. 4) Our bumper harvest in 1990 paved the way for 1991's agricultural growth. In particular, the state has established a grain reserve system, which is a key material base and macroeconomic regulation and control measure.

But at the same time, we must soberly face up to the facts that China's agricultural base is still fragile and not too stable, and that agricultural fluctuations still have a large impact on the overall situation. We must absolutely not misunderstand 1991's great bumper harvest despite huge natural disasters to mean that we have "solved" our agricultural problems. China's agriculture is still unable to withstand major setbacks, and even less able to sustain successive years of fluctuation with no advance. Our growing population and increasing public demand are making our agricultural burdens heavier year after year. In addition, circulation and market problems are great agricultural limitations. Our agricultural product markets are soft, our agricultural production economic efficiency is declining, and we are having difficulty maintaining the initiative and stability of our peasants and major producing areas. These are new problems that have arisen as reform has developed.

China's reform and opening up to the outside world began in the rural areas. Through a dozen years of reform and development, 900 million peasants have unwittingly entered a new commodity economy world. While peasants used to be concerned only about production, with the more bumper harvests of products the better, conditions are now changed as follows: 1) peasants have broken free from the self-sufficient natural economy, 2) agricultural production involves a lot more initiative and independent decisionmaking power, 3) our agricultural production level has improved sharply, so that over 60 percent of our agricultural products have become commodities, 4) Based on production developments, peasants have begun to demand higher living standards and steadily increasing incomes. This is confronting us with a new conflict, in which we must increase output and enhance our agricultural base, while creating an appropriate socio-economic environment for peasants who have become commodity producers. On one hand, we must ensure that peasants can sell the products they produce, in order to protect their economic interests. On the other, we must be good at guiding vast numbers of peasants to roughly gear their production to market demand, so that the value of the products they produce is publicly recognized. These are the tasks that we are faced with.

Comrade Deng Xiaoping pointed out long ago that we must pay attention to the latest conditions, by studying and resolving the most current issues. Our agriculture has entered a fresh state, in which we are encountering totally new conditions and issues, which must be resolved well. From now on, we must take a full and positive initiative to forcefully implement the resolutions of the Eighth Plenary Session of the 13th CPC Central Committee. This will enable us to solve one by one the new problems that crop up in our agricultural and rural economic development, and to perfect our operating forces step by step.

II. On Stability and Improvement of Our Basic Rural Policy

The Eighth Plenary Session of the 13th CPC Central Committee fully and thoroughly set forth our basic rural policy. It pointed out in particular that, as the responsibility system, mainly the linking of remuneration to output by household, conforms to the current level of our agricultural productive

forces and is in line with the will of the peasants, we must adhere to it over the long term and improve it constantly. This system is highly adaptable, in that without making a fundamental change in the basic order, it can be steadily improved to adapt to higher-tech agricultural productive forces and rural economic developments. We must not shelve "improvement" because we are focusing on "stability." Our emphasis on "improvement" must definitely be suited to local conditions and diversified in form. The resolutions of the Eighth Plenary Session pointed out that rural reform "must continue to stabilize our responsibility system, mainly the linking of remuneration to output by household, steadily improve our dual operating system that combines centralization with decentralization, actively develop our socialized service system, and gradually enhance our collective economic might." These four phrases very accurately and clearly explain the dialectical relations between stability and improvement, and between development and reform, which can be summed up as "guiding peasants onto the path of getting wealthy together." As these four phrases are an organic whole, it would not do to try to understand them in separation from each other.

III. On Our Food-Supply Problems

Food supply is a glaring problem in the current structural adjustment of our rural industry, an unusually sensitive issue, and a current agricultural work difficulty. First, we must clarify our overall food-supply problems. From an overall and long-range perspective, China's food-supply problems are long-range, crucial ones that definitely cannot be ignored, because we must ensure a steady increase in our food supply. Second, we must face up to our immediate food production problems, by taking active steps to ease and solve them.

As to our current food-supply problems, we must take a number of steps to deal with them positively and carefully as follows:

1. We must gradually resolve the issue of irrational food prices. We must proceed to invigorate our food circulation, by synchronizing our procurement and marketing prices, and suitably adjusting our procurement and marketing policy. We recommend taking more forceful price reform steps and speeding up the pace a bit in 1992. Some places are already conducting explorations and experiments in line with their respective actual conditions. While conditions and methods may differ, the idea is the same.

2. We should adjust the grain ration criteria for urban residents. The steps taken in this area in some places have been successful. Such adjustments not only should not affect the food consumption of urban residents, but also should not greatly increase their economic burdens. As long as concrete actions are careful and take into consideration the difficulties of large, low-income urban families, they should be safe and feasible.

3. We must adopt a rational sharing method, in order to solve the problem of poor efficiency in food cultivation. While economic efficiency is lower for food production than for any other agricultural products or in other industries, since food prices cannot be allowed to be regulated completely according to market supply and demand relations, we have a subsidy

problem. Food prices are now partially subsidized by the state, and partially borne by peasants who grow food, which makes things hard for both state revenue and peasants. We must take steps to share out the food production efficiency loss among the state, localities, urban residents, peasants, and manufacturing enterprises. Putting everyone in the same boat to help ensure a steady increase in our food supply, will be a solution to the problem.

4. We must invigorate food production with S&T. Applied S&T can increase per unit area yields, improve quality, and lower production costs for food. This would be a positive step that could basically ensure a steady increase in food production. If China's food production remains for long in a state of high input and low output, either state revenues will be unable to subsidize it, or consumers will be unable to bear the too high food prices. Even more deserving of attention is that if our domestic food prices and costs are higher than international averages, our opened up economy will make it hard for us to keep a flood of imported food from pouring in.

5. We should establish a grain reserve system. All levels must come up with methods to store grain, all the way from the central government to localities and villages. Grain reserves must be kept not simply at producing areas and commodity grain allocation areas, but also in marketing areas.

6. We should adjust our internal food production structure, by implementing "general stability with minor adjustments." In our long-range commodity grain allocation areas, S&T is being used to invigorate agriculture, water conservancy facilities are being improved, per unit area food yields are increasing, and overall output is growing steadily. If we do not leave some latitude in our structural adjustments, local governments and food-producing peasants will be unable to bear them. As mandated adjustments would certainly be unfavorable to a stable food supply, we should let our actions be guided by circumstances and the necessary flexibility. We could try the following three methods: 1) In three-crop-a-year areas, we could change the rotation from "wheat, rice, rice" to "vegetables, rice, rice." The areas that have tried this have already achieved annual food yields of 1,000 kg per mu. In addition, income from winter cash crops can reach 2,000 yuan. 2) We could improve food variety and quality. 3) As many peasants in the south have poor efficiency from feeding hogs rice, they could change to growing corn for silage.

In making these minor structural adjustments, all areas should definitely have "rapid response teams" in control, so that former methods can be immediately resumed in the event that fluctuations and food shortages occur. Guangdong and Fujian have decided to not allow the cultivation of fruit trees or digging of fish ponds on farmland on which they are adjusting the cultivation structure, which steps are being taken to preserve some flexibility and initiative. If problems occur, the first thing is to use abundant reserve grain to meet emergency needs, after which food production can be increased in the next production season. In the event that the corn grown for silage in the south leads to food shortages, it can be allowed to ripen as food corn, in order to provide more flexibility. We must take more initiative in adjusting food variety, seasonal rotation, and local structures.

IV. On a Rational Multipurpose Development and Utilization of Our Agricultural Resources and All-Out Development of Our Rural Economy

We must develop the range and quality of production of our resources, while extending our agricultural production into the fields of food processing, storage, transportation, and circulation. In other words, we must advance from primary to secondary and tertiary industries, move from development of agricultural production to all-out development of our rural economy, and expand our horizons by beginning to take action in developing farming, livestock raising, sideline production, and fishery, production, supply, and marketing, and primary, secondary, and tertiary industries. This will open up a broad arena for development of agriculture and our rural economy. Our agricultural sector must revise its ideas and thinking like this not only for the all-out development and further invigoration of our rural economy, but also for a guarantee of the sustained, steady, and coordinated development of our agricultural production.

In addition to the abovementioned issues, we are also faced with ones, such as invigorating agriculture with S&T, building a socialized service system, "emphasizing dual tactics," conducting socialist ideological indoctrination in the rural areas, building rural grass-roots organs, and enhancing the leadership of the party. As the CPC Central Committee and State Council have issued clear instructions in these areas, and special documents in some cases, the agricultural sector must take an active initiative under the leadership of party committees and governments at all levels to do good work in these areas. As our rural and agricultural sectors are a large team, and our agricultural system's county and township departments and service systems are all natural components of our agricultural grass-roots departments, we must work in coordination with localities. When exercising government functions, our grass-roots units must act as models to strengthen our rural grass-roots political power, and contribute to ensuring that our grass-roots agricultural departments become a stronger part of our rural grass-roots departments. Tasks that we must carry out to the full are participating actively in socialist ideological indoctrination and acting realistically in the rural areas. Carrying out these tasks well will provide favorable conditions for our vocational work and agricultural development. Therefore, the units working on our agricultural production and rural economy must conscientiously enhance their political and ideological indoctrination work, by combining it closely with our "emphasis on dual tactics," in order to bring its positive role into full play. This is another key area in which we can act in the spirit of the Eighth Plenary Session in an all-out way.

Sichuan Plans Rural Economic Development in Nineties

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[Article from the Sichuan Province Science and Technology Advisory Commission, Agricultural Group, Agriculture and Light Industry Team: "Tentative Plans for Sichuan's Rural Economic Development in the 1990's"]

[Text] The Eighth Plenary Session of the 13th CPC Central Committee fully affirmed the key standing and role of agriculture and the rural economy. As Sichuan is a major agricultural province, and rural economic development throughout Sichuan plays a decisive role in the national economy, it is of key importance to scientifically study Sichuan's rural economic development strategy for the 1990's.

Tentative Plans

The general outline for Sichuan's rural economic development in the 1990's should be to adhere to the basic line of "one focus, two main points," rely on S&T, improve our infrastructure, develop our agriculture, expand our industry, and take the development path of "combining agriculture with science and education, cultivation with livestock raising and food processing, and agriculture with industry and commerce." The aim of this is to gradually enrich our peasants and counties, so that everyone throughout Sichuan's rural areas will be comfortably well-off by the end of the century. The particular way to achieve this development plan will be to accomplish the "five simultaneous developments" of reform with growth, food production with a diversified economy, agriculture with industry, production with circulation, and population control with intensive cultivation.

Key Development Objectives

By the end of the century, Sichuan's overall food output should reach 50 million tons a year, for over 400 kg of food per capita and an increased output of over 7.4 million tons more than in 1990, and our peasants' per capita net income should reach 1,000 yuan a year. Our population should be kept below 122 million, with our rural population being kept under 106 million and our natural population growth rate being kept below 12.9 percent. Our overall cultivated area should be maintained at 93 million mu, with not less than 13,000 mu under food cultivation and not less than 0.75 mu of cultivated land per capita, which is the warning line for ensuring the basic subsistence of our 100 million plus population. Our township enterprise gross output value should reach 180 billion yuan.

Priority Breakthrough Options

We should develop 30 to 40 counties (cities) with annual GVIAO's [Gross Value of Industrial and Agricultural Output] of more than 4 billion yuan and revenues of more than 100 million yuan a year. We should slant our policies toward investment, by appropriately increasing loans, devolving a certain amount of macroeconomic regulation and control power and public fundraising authority, and giving preferences to S&T.

We should suit measures to local conditions by developing 40 million mu of basic farmland with high and stable yields, including the development of 10 million mu of ton-per-mu grainfields and 10 million mu of "double-thousand fields," and the upgrading of 20 million mu of low- and medium-yield fields.

We should set up priority multipurpose rural economic development zones in western, eastern, and southern Sichuan, select a number of counties in the suburbs of

Chengdu and Chongqing, the Sichuan basin, and hilly interior zones in which to develop high-yield, high-quality, commercially efficient, multipurpose agricultural development zones, and develop small industrial development zones in counties and some places of strategic importance.

Strategic Measures and Countermeasures

We should steadily improve the party's basic rural policy, by continuing to deepen rural economic reform. We should stabilize the responsibility system, mainly that linking remuneration to output by household, by improving our dual operating system that combines centralization with decentralization. We should build a better agricultural socialized service system, by focusing on providing better service to S&T and agricultural product sales. We should suit measures to local conditions, by establishing organs to manage and coordinate our agricultural socialized service. And we should expand and increase our collective economic might, by conscientiously and effectively lightening peasant burdens.

We should strengthen our agricultural base and enhance our development stamina, by ensuring that our food output reaches new heights and vigorously developing a diversified economy. We should set up agricultural development funds by classification and level, in order to improve our agricultural fund investment mechanism. We should actively encourage peasants to take part in cooperative labor, in order to conscientiously improve our long-range construction of water conservancy works and agricultural infrastructures. We should put quotas on the felling of trees for lumber, reduce timber consumption, and adhere to profitmaking forestry. In our development of cash-crop forestry, such as fruit and silkworm mulberry trees, we must make quality our key priority. And we must adopt special preferential policies to support the development of agricultural industries, such as chemical fertilizer, pesticides, agricultural plastic film, farm machinery, and feed.

We must rely on S&T education to invigorate Sichuan's rural economy. We should enhance our agricultural S&T research, by organizing cooperative efforts to solve key problems, setting up technical structures with distinctive Sichuan rural economic development characteristics, and establishing and perfecting a multi-level, multi-component, and multi-functional agrotechnology popularization service system. We must sharply increase our S&T input, by reinforcing our S&T popularization organs. And we must develop our rural education, in order to bring an overall improvement to the literacy and S&T levels of our peasants.

We should continue to bring into full play the advantages of our livestock industry focused on hograising, by increasing our commodity output of lean-meat hogs, and gradually establishing a multipurpose live hog industrial group. We should optimize our livestock and poultry mix, by creating the conditions for the development of small household poultry, livestock, and herbivorous domestic animals, and speeding up our development of cattle, sheep, rabbits, poultry, and grasslands livestock industries. We should take active steps to develop and bring into full play our sericulture and fishery advantages. And we should develop a rational

overall structure, by setting up commodity bases for famous-brand, specialty, high-quality, and new livestock products.

We should vigorously develop township enterprises, by establishing in a step-by-step way rational mechanisms for their steady and coordinated development. We must enhance our understanding and leadership, by making scientific plans, carrying out classified leadership, improving and adjusting our overall industrial structure, developing our S&T, improving our management, and raising our efficiency. We must continue to implement a special fixed assets investment policy, by expanding local decisionmaking authority, practice a special fundraising and financing policy, by increasing input through diversified channels, carry out a special circulation policy, in order to invigorate township enterprise commodity circulation, and put into effect a special economic coordination policy, in order to develop cooperation among lateral economic alliances.

We must enforce population control, by establishing restraint forces, in order to effectively control our rural population growth. We must improve our job skill education and management service for the conversion of our rural workforce, by establishing conversion service departments level by level, in order to speed up our rural workforce conversion.

We must establish and perfect market forces, in order to invigorate agricultural product commodity circulation, by controlling or deregulating as necessary. We must develop in a planned way agricultural product wholesale and futures markets, by improving our macroeconomic regulation and control measures, and developing our rural market system. We must push forcefully ahead with rural circulation reform, by continuing to bring into full play the dominance of supply and marketing cooperatives and state-owned commerce, while actively supporting, encouraging, and guiding peasants to enter the field of circulation, and persisting in diversified circulation channels. We must reinforce our circulation infrastructure, by establishing agricultural sideline product reserve funds, and sharply increasing agricultural sideline product processing. And we must take active and safe price reform steps, by gradually rationalizing our agricultural product price relations, and drawing up a flexible and rational agricultural product pricing policy, in order to ensure that Sichuan's agricultural products can compete with those in their class throughout China.

Our war on poverty must be focused mainly on helping the poverty-stricken get wealthy, by adhering mostly to economic development, focusing on the "two stabilities," and launching an assault to help the poor develop. We must continue to implement the various policies to help the poor develop that practice has proved to be effective, by practicing preferential policies and investment preferences for all of the 69 poor counties throughout Sichuan. As to the 40 some counties that have escaped poverty, we must consolidate and expand our support successes, in order to keep them from falling back into poverty. And as to the poor minority nationality counties in western Sichuan, we must provide priority personnel, financial, and material support, so that they can cast off their poverty and have plenty to eat and wear as quickly as possible.

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